
REPORT ON INTERNATIONAL TRADE

P E P (Political and Economic Planning) is an independent non-party group, consisting of more than a hundred working members who are by vocation industrialists, distributors, officers of central and local government, university teachers, and so forth, and who give part of their spare time to the use of their special training in fact-finding and in suggesting principles and possible advances over a wide range of social and economic activities. By means of the fortnightly broadsheet, PLANNING, P E P keeps in continuous touch with a large number of men and women interested in social and economic reconstruction. The group has issued nearly a hundred broadsheets on a considerable variety of subjects, and has also published full-scale reports on the coal-mining, cotton and iron and steel industries, housing and building, electricity supply, retirement pensions and continued education from the age of fourteen. Details of these are given inside the back cover.

Preparatory work on problems of international trade was begun by the Industries Group of P E P more than four years ago. In the autumn of 1933 a separate International Trade Group was established, and in March 1936 growing international frictions led P E P to pick out the completion of this Report as an emergency task. The fact that a further fourteen months of intensive work have been needed to finish the Report is a measure of the quantity of labour, research and discussion that its preparation has involved. In spite of the amount of trouble which has been taken to secure a comprehensive and balanced treatment, the nature and complexity of contemporary international trade is such that many points have had to be omitted or treated much less fully than we would have liked.

P E P is concerned primarily with British problems, and this Report has frankly been written from the standpoint of United Kingdom import and export trade. We have, however, tried to avoid adopting narrow or insular views, and we hope that it may prove of service also to those who are working to raise standards of life and to reduce economic friction in all parts of the world. Like other P E P publications, this Report is intended to put down as far as possible in an orderly and coherent manner the main facts about its subject at the present time, and to give a progressive and balanced opinion about the next stages in development. The task in this case has been especially difficult as the subject is in a state of flux.

P E P welcomes constructive criticism, inquiries and suggestions, which should be addressed to:

The Secretary,
P E P,
16 Queen Anne's Gate,
London, S.W.1.

Telephone: WHItehall 7245/6.

P E P (POLITICAL AND ECONOMIC PLANNING)

REPORT
ON
INTERNATIONAL TRADE

A survey of problems affecting the expansion of international trade, with proposals for the development of British commercial policy and export mechanism.

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SUMMARY AND CONCLUSIONS

This summary of the main findings of the group is necessarily highly condensed. The various points made have been dealt with in more detail in the appropriate chapters of the Report, which should be consulted.

Approach to the Problem of Trade Expansion

This report examines recent trends in international trade with a view to discovering how the volume of world trade may be enlarged in contemporary conditions. We have not felt ourselves bound by traditional concepts regarding international trade which often rest upon an interpretation of economic history not always justified by the facts. For instance, the prevalence of free trade in the period when British trade increased most rapidly was not as great as is sometimes supposed, and the golden age of the British export trade in fact was based largely on the exceptional competitive advantages of British manufacturers in the world market, at that time unqualified. It is therefore unwise, in approaching this problem to adopt either the attitude of the convinced "protectionist" or that of the extreme "free trader." We have, in fact, to consider the present situation as it stands and to attempt to find ways in which the often unpalatable facts can be turned to good advantage.

Economic Function of International Trade

The fundamental economic justification for trade between countries, as for trade between different parts of the same country, is that it enables consumers to take advantage of existing specialisation of economic activities; this, however, is subject to political, social, and other extra-economic factors. The fundamental objective of national commercial policy should be the maximisation of consumption and the increase of the standard of living of the people, using such opportunities as external trading offers towards this end. Thus exporting and foreign investment are not ends in themselves but merely a means of acquiring a claim on the productive resources of other countries for the satisfaction of current or future consumption. Economic specialisation can, however, in practice only be pushed as far as is compatible with overriding political and social requirements—such as considerations of defence and the necessity of avoiding excessive fluctuations of prosperity. These are a stronger influence at the present time than in many periods of the past. Moreover, certain fundamental features of modern economic development are making for less rigid specialisation of activities, or at any rate for a less obvious specialisation than that which existed at the end of the nineteenth century between the industrial coal and iron economy in Western Europe and the primary producing economies overseas. The slowing down in the expansion of populations and development of new territories, the rising standard of life leading to more complicated and more diversified consumer demand, the distribution of sources of the essential

resources of industry, which have themselves changed in character and relative importance, have been the chief factors in this trend. It is probable that under the new conditions, the total volume of international trade will continue to increase but that its composition will change and that it will become of less proportionate importance in comparison to internal trade.

Importance of Invisible Exports and of the Quality of Export Trade

It should be remembered that the United Kingdom's interest in international trade does not end with the trade in goods. Invisible exports—shipping services, insurance, commissions and London financial services—brought in a net income of over £200 millions in 1929, equivalent to over a quarter of the value of the export trade in merchandise and more than four-fifths of the net income from past foreign investment. Income from invisible exports depends upon the volume of world trade as a whole, not merely upon the volume of British trade. Moreover, if the objective of a rising standard of life is to be consistently pursued, it is important that due weight be attached to the composition and quality as well as to the volume of trade. For consumption will be maximised if, in so far as is compatible with world stability, the maximum amount of imports can be purchased with the minimum expenditure of effort in the production of export goods to pay for them. For this reason, constant attention must be paid to the quality of the export trade, in order to ensure, in particular, that a transition is continually taking place from the old staple lines in which competition from newer producers has increased, to newer products which are still highly valued and for which world markets have not yet been highly developed. In this connection the concentration of manufacturers upon the home market, because immediate prospects of profit are better, is dangerous both to their own ultimate interests and to the future prosperity of the nation. For if consumption is to be increased in the future, imports must be at least maintained, and it is therefore essential that the vitality of the export trade should be maintained by the continual infusion of new export industries and new export products.

In seeking to expand the export trade, however, attention must be paid to factors which affect it indirectly. It should, for instance, be remembered that much of the trade of the world, and particularly that of the British Commonwealth, has habitually been conducted on a multilateral basis. Attempts to increase trade on a bilateral basis which may appear on the surface to produce satisfactory results for the parties concerned, often have the effect of interfering with multilateral trade and may, therefore, have unfortunate indirect consequences.

Recent Trends in International Trade

World trade declined by 25 per cent in volume between 1929 and 1932, and in spite of some recovery subsequently, had reached a level in 1936 which was still 14 per cent or 15 per cent below that of 1929. The decline has been greatest in the case of manufactured goods. Trade in raw materials has been relatively well maintained, as has trade in investment goods compared with trade in consumption goods. The decline and the subsequent slow recovery in world trade have not been due to any parallel

tendency in world production. In contrast to the experience of former depressions, world production and not world trade has led the improvement. Both the divergent tendencies of world trade in different classes of goods and the more rapid progress of world production are largely due to the consequences of economic nationalism. The progress of internal economic development has been one of the outstanding features of the economic history of the past five years. This movement, despite a host of absurdities, appears to arise from fundamental economic and technical changes of an evolutionary kind in factors affecting the international localisation of industry, and is essentially a permanent tendency. It has been affected by social and political factors which are not entirely the product of depression. It has been hampered and distorted into uneconomic forms in some cases by the inadequacy of internal working capital in countries where the urge towards internal economic development has been strongest and by the impossibility, in the conditions of the last five years, of obtaining capital from external sources. Hence the regulation of imports and the restriction of free exchange dealings, although aggravated by the more extreme forms of nationalism based on reasons of prestige, war economy, special complications of over-valued currencies and heavy debt burdens contracted before the slump, arises in part from the necessity of satisfying the prior claims of internal economic development for capital equipment and essential raw materials.

Growth of Bilateralism, State Trading and Economic Groups

The growth of bilateralism in international trade and the tendency of countries to unite in exclusive economic groups are partly the result of these difficulties and represent attempts to secure essential supplies with the minimum outlay of foreign exchange and to preserve the power to import freely by forcing or safeguarding outlets for exports. Moreover, "crisis measures," though originally imposed for a definite temporary purpose, have tended to become assimilated in the economic structures of the countries imposing them, and cannot therefore be easily removed. At the same time, increased State control of internal trade has necessitated increased State control of external trade as well. Increased State regulation of external trade, which is not based only on economic motives, has come to stay, even though in course of time it must be subject to the rationalisation which it urgently requires in order to perform efficiently the functions for which it is intended. The process has been pushed furthest in Germany and Italy, though in these countries it merely represents in an advanced state a condition of affairs which exists widely elsewhere.

The British Empire must share in the responsibility for increasing the impediments to world trade since 1931. The British tariff and the Ottawa Agreements which followed the depreciation of sterling were, in a large degree, an inevitable attempt to correct a balance of forces which had been tilted against the United Kingdom since 1925. But they succeeded by diverting existing trade rather than by finding new trade outlets, and for this reason have reacted slowly and indirectly to the disadvantage of the parties which benefited most from them in the first instance. Although these policies met the essential need of economic self-preservation at the time when they were inaugurated, they are not necessarily the right policies if continued without modifications in the conditions of the present time.

Dependence of the British Commonwealth on External Trade

Both the United Kingdom and the British Dominions and Colonies are highly dependent upon their trade with the outside world. The British Empire is a producer of primary products in excess of its capacity, or its potential capacity for some years to come, to consume them. This excess is increased if account is also taken of the balance of production in other countries, such as Denmark and Argentina, which are linked to the Ottawa system by agreements with the United Kingdom. In spite of the unsatisfactory standards of consumption at present, the prospect of a large expansion in the demand of the United Kingdom for Dominion foodstuffs in the future is not good in view of the tendency towards a stationary or declining population. The white population of the rest of the Empire is small, while the standard of living of its vast coloured population overseas is low, so that the prospects of largely increased consumption by British countries overseas of their own produce or of British manufactures do not by any means meet the potential increases in their productive capacity. In these circumstances, it is to foreign countries, and particularly to the industrialised parts of Continental Europe, which have an enormous white population, that the primary producers of the Empire must look if they are to attain anything like their full productive capacity and a large increase in their standard of life.

World Standards of Living

The British Commonwealth, and the United Kingdom in particular, has a vital interest in a large and flourishing world trade. The prosperity of world trade depends upon raising the world's standard of living. It will therefore repay British interests to assist the internal development of foreign countries with the resources which are surplus to the requirements of the British Commonwealth. Such a policy would also go far towards removing the economic pressure which is one of the most potent contributory factors towards political unrest and, perhaps, eventually war. In view of the failure, hitherto, of the tripartite currency agreement of September 1936 to produce any appreciable spontaneous loosening of trade restrictions, a constructive lead by the United Kingdom, in conjunction with the other democratic Powers, is now urgently necessary.

Relation of International Trade to British Economic Recovery

As regards the existence of possible difficulties in finding concessions to offer foreign countries without doing damage to internal interests, it may be added that a relaxation of import restrictions is daily becoming more necessary in the interests of internal stability. Industrial recovery on the basis of home market demand was already leading to a condition bordering upon full employment of labour and capital resources in many industries, when the exceptional and privileged demands of the rearmament programme were imposed upon it. If the competition of these various demands is not to have the effect of bidding up the price of services and resources which are already very fully employed, thus leading to a dangerously inflationary situation, fresh productive resources must in some way be made available. In the short period, and in certain industries, this can only be done by relaxing restrictions on imports. Moreover, the admittance of a larger volume of imports should

have a beneficial effect on those industries which are highly dependent upon export trade and which are the only branches of the productive system remaining at all seriously depressed.

Colonial Economic Policy

The first constructive step, in any case, in any attempt to secure an expansion in world trade on the part of the United Kingdom, should be the return to a policy of non-discrimination in the Crown Colonies. Discrimination is contrary to the consuming interests of the populations of these territories whose standard of living is so low that they are dependent upon purchases of goods cheaper than those with which United Kingdom manufacturers can supply them. In this sense, Lancashire piece-goods and Japanese piece-goods are not the same commodities, and substitution of one for the other can only be effected by depressing total consumption. Moreover, the general economic development of the colonial territories is conditioned by their high dependence upon foreign markets as an outlet for their produce. A policy of discrimination is contrary to the traditional concepts of Imperial Trusteeship and of government essentially in the interests of the colonial peoples which the United Kingdom has always held, and lends force to the colonial aspirations of the "Hungry Powers." Statements such as that which was recently made on behalf of the British Government to the effect that full and immediate imposition of an Open Door would impair the authority of colonial legislatures and impede their progress towards self-government by limiting their authority in fiscal matters, appear to ignore the real issues involved. It is, however, important in this connection to distinguish between a return to non-discrimination, which does not preclude the existence of tariffs, and reimposition of the Open Door which presupposes completely free imports.

Government Attitude to Trade

Before examining other aspects of government commercial policy, the functions of government in relation to trade in general may briefly be considered. These may be defined as, first, the regulation of the workings of economic processes in the light of political and social factors, and, second, the improvement of the working of the economic process itself by economic measures of its own. In the sphere of international trade, the government has to reconcile external economic policy with the requirements of internal economic policy. The government is the ultimate and only arbiter in matters of policy, and changes in policy can only be brought about by government action or government goodwill. The government has the particular responsibility of watching the interests of consumers which are not effectively represented through any other agency. Different governments have placed very different interpretations on their responsibilities in relation to trade, especially in the relation between the formulation or control of policy and its execution. Some governments have monopolised both functions, while others exercise a very direct control over the execution of policy. In the United Kingdom the government takes no part in the execution of policy, and in these circumstances there is a danger that policy will not always be very precisely formulated. The ideal system involves clear definition of policy on the part of the government, while at the same time business operations are left as free and therefore as efficient as possible.

Reduction of Trade Barriers

The realignment of currencies, the abandonment of deflation over the greater part of Western Europe, and the promise of greater exchange stability, which resulted from the events of September 1936, presented the world with a great opportunity to secure a greater volume of international trade. But subsequent events have proved it a mistake to believe that there can be much easy or automatic sweeping away of trade barriers in practice. Constructive action by governments and by industrialists is necessary, and the existing barrier of trade restrictions must be breached at definite points. The United Kingdom has, so far, failed to give any definite lead in this direction, but has, rather, hung back and allowed the initiative to be taken by the Scandinavian countries, Holland and Belgium—who attempted to secure an expansion of trade in 1930 through the Oslo Convention—and by the United States and France. More recently the British Government has co-operated with the French Government in setting on foot a preliminary enquiry into the possibility of breaking down the barriers to trade which will be conducted by M. Van Zeeland. According to a statement made by the British representative at Geneva in the autumn of 1936, following closely on the tripartite currency agreement, the contribution of the British Government was, for the moment, to stop short at abstinence from further depreciation of sterling, or from *increasing* tariffs as a result of the devaluation of other currencies in response to the strong internal pressure for increased protection which the government expected. The attitude of the British Government has been amplified by a further statement made by Mr. Baldwin in March 1937. It appears that, while subscribing to the view that the cause of world peace would be promoted by the freer exchange of goods and services, the government holds that the main obstacle to its achievement in practice is the existence of the present system of quota restrictions on industrial goods and exchange controls, and that tariffs do not form a major impediment to current trade. Action in these matters must, in the opinion of the British Government, clearly be left to other governments, since there are no exchange controls in the United Kingdom, and the only quota restriction on imported industrial goods is the "flexible duty-quota control" of imports of iron and steel which form part of an international industrial agreement among the chief supplying countries. The British Government can take every opportunity to urge action upon other governments, but does not regard the initiative as resting with the United Kingdom.

While the British Government appears to be reluctant to reduce any of its own import restrictions, it also clings to the use of the unconditional most-favoured-nation clause in its most rigid form which seems likely to hamper the efforts of some other nations to create a greater volume of trade in certain directions. For the efforts of these nations have largely been directed so far towards the possibility of increasing trade on a limited regional basis by means of "low tariff clubs." The British Government, according to the same statement, rejects the idea of low-tariff clubs to which it sees two fundamental objections. It is held, in the first place, that the creation of a low-tariff group would involve discrimination against non-participating countries and might lead to retaliation and tariff wars; it would involve the disappearance of the general application of most-favoured-nation treatment, to which the British Government attaches special importance. In the second place, experience is said to have shown that practical

results are not likely to be achieved except by bilateral negotiations, although the Government does not reject the idea of multilateral negotiations, if it can be shown that the time is opportune. In short, the Government appears to have decided that its present commercial policy should be continued without any change or modification, in spite of the general change in international conditions which has been occurring for some years, apart from the more obvious changes since September 1936.

It is because of these changes that we have thought fit to include a critical examination of the efficacy of traditional British commercial policy and to consider some of the alternatives.

British Commercial Treaty Policy

International commercial treaties, and notably British treaties, have been traditionally based on the use of the most-favoured-nation clause, usually in its unconditional form. This amounts, in essence, to a promise which is included in commercial treaties that discrimination shall not be practised in the dealings of one nation with another, although in practice it has taken the form of a pledge of equality of treatment with the "most-favoured-nation." While the unconditional M-F-N clause probably served a useful purpose, particularly to Great Britain, in assisting the establishment of free trade in the middle nineteenth century, its benevolent influence has become less and less obvious and effective in recent years. Generally, the use of the M-F-N clause in its unconditional form would seem to discourage the lowering of tariffs because every concession made to one nation must be broadcast without return to all other nations enjoying M-F-N rights. Alternatively, increased skill in commercial bargaining and Customs administration has had the effect that many of the concessions so broadcast by the automatic operation of unconditional M-F-N are of little or no value except to the original recipient. The chief influences undermining the effectiveness of unconditional M-F-N have, however, been (*a*) the increasing use of quantitative measures of import control (quotas, import licences and cartel agreements) which the existence of M-F-N obligations has, in the event, failed to prevent from being used for discriminatory purposes, and (*b*) the formation of economic groups involving preferential arrangements which fall, either legally or effectively, outside the scope of the M-F-N clause—the British Empire being an important example.

Low-Tariff Clubs

Attempts to widen the area of relatively free trade on a limited basis by the formation of "low-tariff clubs," run up against the difficulty that the existence of such clubs—which, of course, involve discriminatory treatment of imports—contravenes existing M-F-N obligations, except where the countries concerned form a group which has come to be regarded as a legitimate exception to the universal application of M-F-N treatment. The attempt, for instance, of Holland and Belgium to reduce their mutual trade barriers under the Ouchy Convention of 1932 was defeated by the opposition of the British Government on these grounds. If "low-tariff clubs" are to be made possible—and they represent one of the more promising methods of gradually liberating trade—a less rigid

insistence upon the strict interpretation of legal rights under present M-F-N arrangements will have to be encouraged. The United States has already opened for signature an international convention with this object in view.

General Utility of M-F-N

The dropping of any form of M-F-N clause from commercial treaties would be a grave step, since the clause safeguards important rights other than the promise of non-discrimination in the import of goods. It is sometimes suggested that a conditional M-F-N clause should be substituted for the unconditional form in commercial treaties. Under conditional M-F-N, the obligation to extend any concession made to a third party to all other countries enjoying M-F-N rights is not automatic, but is made conditional upon the production by such other countries of an "equivalent counter-concession." Use of the conditional form, therefore, makes possible the creation of a three-line tariff (general rate, preferential rate, and Empire preferential rate) and, therefore, of "low-tariff clubs." But such a step could only be undertaken with full realisation of the administrative difficulties which the conditional form has caused in the past. For it is practically impossible to decide to the satisfaction of all parties on each and every occasion what constitutes an "equivalent counter-concession"—hence the use of the conditional form has, historically, proved a fertile cause of ill-feeling and tariff disputes. The most promising immediate solution would appear to be to secure a much more liberal interpretation of the potential exceptions to M-F-N, which would, in effect, still further restrict its scope, while retaining the present framework intact, should it at some future date again be useful in its original form.

Shortcomings of Bilateral Bargaining

The argument in favour of proceeding by means of "low-tariff clubs"—which means, in effect, progress by multilateral negotiation, though on a small scale at first—is strengthened by the limits which exist to the progress which can be made at this stage by further bilateral agreements. Great Britain was particularly favourably placed to make advantageous bilateral agreements after 1931 and 1932, but even these had some unexpected indirect effects of a harmful nature to set against the advantages secured. In the present circumstances, the indirect disadvantages inherent in bilateral negotiations—which depend largely on the diversion of trade from competitors—often appear to offset the potential concessions to be obtained. If trade in any one market is obtained at the expense of foreign competitors by bilateral agreements, foreign competition is often merely intensified in other markets.

Use of International Industrial Agreements

This consequence may be avoided or minimised if supplementary and parallel negotiations between industrialists are encouraged alongside government agreements, subject to proper government supervision. The lack of adequate organisation in many British industries at present prevents this and, in addition, reduces the efficiency of official negotiators, even in bilateral talks between governments, owing to the inadequate or

unequal representation of industrial opinion. For this reason alone better organisation in industry is most necessary. But better organisation would also be the first step towards facilitating wide industrial negotiations for the purpose of regulating international trade on broader lines.

International industrial agreements, particularly if they are called "cartels," are habitually the object of public suspicion in Great Britain. There is a general belief that cartels are necessarily predatory by nature, injurious to consumers and contrary to public interests. In view of this attitude, cartel agreements are usually surrounded by conditions of secrecy which only serve to intensify public suspicion. The history of certain international cartels and restriction agreements in the past has certainly justified this verdict. But there is reason to believe, on general grounds, that the technique of industrial control is developing in a way which is exercising a modifying and beneficial influence upon the policy of cartellised producers. If the present restriction scheme for rubber and the recently suspended scheme for copper are compared with earlier attempts at market control for these commodities, it would appear that the failure of the greedy and short-sighted policies pursued earlier has taught producers where their real interests lie. The recent schemes show a degree of moderation and enlightened self-interest which earlier attempts at restriction certainly never possessed. It is significant, also, that a number of recent agreements for the control of raw material production are not only recognised by governments, but are enforced by legislation. Producers who are in the position to exercise monopoly powers can make the choice between selling a relatively small quantity at high prices and a high rate of profit, and selling at the lowest prices possible in order to attain maximum consumption. There is no doubt that it is in the latter policy that the best interests of all concerned are to be found.

Cartels in Boom and Slump

There are two main types of cartel agreement. The first is mainly concerned with maximising the earnings of producers over the long period by the regulation of output to demand. This type of control is generally applied to raw material production and often originates in times of slump when excessive output and stocks tend to prevent the recovery of prices. Control of this sort is liable to break down in time of boom owing to disruptive pressure from outside in the shape of increasing output by new or non-participating producers. The growth of disruptive forces of this kind is encouraged if cartel producers who have used their control of the market to restore a reasonably remunerative level of prices, are unable to resist the temptation to go further and "soak" the consumer. The second type sets out to maximise the earnings of producers by the division of the market at a given price level. This type of control would seem to be more vulnerable in times of slump and to the inside pressure which arises from bad faith on the part of members. As slump begins to affect turnover, cartel members may be tempted surreptitiously to undercut the official price in order to maintain their individual sales.

Cartel Policy and Administration

In so far as the mentality of producers is changing for the better, and the technique of cartel administration is improving, the instability of cartels arising from these economic

causes tends to be reduced. Many producers to-day have a far better appreciation of the fundamental economic factors affecting supply and demand in the long period and their reactions upon producer interests. This growing enlightenment is largely the result of experience, both of the drastic consequence of defying the laws of economics and of the commercial success of firms and industries which have respected them. This development would probably be accelerated if cartel policy were made subject to the criticism of public opinion by wider and more detailed publicity. It is growing in any case in so far as cartels are making increasing provision for research and development activities with a view to increasing consumption in the long period by technical advances. For the appeal to consumers on technical grounds can only be successful if it is reinforced by the appeal on economic grounds which results from the pursuit of a moderate price policy. The spread of this outlook should go some way towards removing the destructive pressure from outside upon certain types of cartel. For if a sufficiently broad view is taken by cartel administrators of consumption possibilities in regulating output, extravagant booms and slumps are less likely to develop and destructive pressure will not grow so readily. The technique of cartel management is also improving on the administrative side with increasing skill in devising a constitutional framework which is legally binding on members in practice. In addition, there has been a notable tendency in recent years to eliminate the rigidity in operation of some of the earlier schemes, and therefore to remove the incentive of members to break them, whatever their legal ability to do so. This tendency has taken the form particularly of a trend in favour of export control as opposed to production control. Production control involved interference with the activities of producers in their home markets, and schemes have broken down in the past because manufacturers have been compelled to share an unforeseen expansion in the domestic market with their competitors. Recent cartels have tended more often to apply merely to the division of "free" markets. Control of exports can be less restrictive by nature and less injurious to consumption than control of production. But it contains certain dangers for consumers nevertheless, and requires increasing vigilance by governments to ensure on the one hand that consumers are not exploited by their own manufacturers in conditions where import competition has been removed or controlled, and on the other hand that consumers in "free" markets, where there is no indigenous production, are not subject to exploitation by arrangements between competing outside interests.

Relation of Government to Cartels

We believe that the technique of trade control by cartels is coming increasingly to be based on sound economic principles and can contribute to the orderly expansion of trade, and perhaps also to the elimination of excessive fluctuations in economic activity. But it cannot be sufficiently emphasised that progress in this direction can only be secured by the active intervention of governments to ensure that agreements should not take a form detrimental to consumers. Governments are already in a position to insist on this, since theirs is the primary responsibility for the protection of consumer interests from exploitation by producer groups, although this responsibility is not always adequately fulfilled. Apart from their undoubted constitutional right to intervene, however, governments can offer a substantial inducement to producers to co-operate with them

when making agreements, in the shape of legislation to give statutory force to cartel agreements through the machinery of the distribution of quotas and the alteration of tariffs. The beginnings of a system of this sort are already to be observed in the institution of the Import Duties Advisory Committee in the United Kingdom and the Tariff Boards in the Dominions. Moreover, the assistance lent by the British Government to the iron and steel industry in conducting negotiations with the International Steel Cartel has set a precedent in this country for government intervention. Official bodies, however, have no power to initiate negotiations, and the initiative has not so far been very readily forthcoming from inside industry. Improved industrial organisation is necessary to this end.

Apart from the case for increased government intervention for broad economic reasons, the growth in the importance of international cartels as an influence on world trade may soon compel governments to intervene, if only in order to preserve the efficacy of their own commercial agreements. Examination of the scope and character of some of the cartels at present in existence reveals the large and growing influence which such agreements exercise. The growth of this movement seems to be founded in large degree upon the evolution of the industrial structure itself. At any rate, the existence in practice of a large number of industrial agreements, some of which are secret and cannot be officially recognised, tends to conflict at times with the provisions of government agreements. Where such conflicts occur the devices which have to be employed to evade one or other of the agreements concerned complicate infinitely the mechanism of day-to-day trade. Governments should, therefore, interest themselves actively in industrial agreements in conjunction with their own. The responsibility of governments in this connection is threefold—to fulfil their responsibility of protecting consumers from monopolistic practices, to secure the improved working of the productive and distributive processes and to preserve the efficacy of their own commercial arrangements. The development of such a technique seems to be particularly worthy of consideration at the present time in view of the difficulties surrounding the application of traditional commercial policy and the changed economic background of international trade.

Local Cartels

Regulation of trade by cartel agreements would seem to be particularly suited to alleviate the frictions caused by the growth of secondary industries in the Dominions and foreign countries overseas. The proportions in which such markets may reasonably be supplied by Dominion home industries and British and foreign export industries respectively is a question which the three parties concerned should be encouraged to decide in detail for themselves subject always to official control and the final approval of the government of the consuming country.

British Export Methods

While government and industrial agreements can determine broadly the conditions under which trade is carried on, trade is actually conducted in the event between individuals or individual firms and the efficiency with which it is conducted will depend upon the efficiency with which these contacts are organised.

Taking British industry as a whole, there is an outstanding lack of knowledge of foreign markets. British export methods have, in fact, failed sadly to adapt themselves to the changing conditions of modern international trade. There is even a tendency, in view of the increasing difficulty and complexity of export business and the easy and profitable outlet provided by the home market, to neglect export trade altogether except to Empire countries, where ties of currency and language make business easier. This attitude is injurious to the national interest and to the long-term interests of manufacturers themselves. For the neglect of export markets at the present time may result in a loss of goodwill among potential customers abroad which would prove of incalculable importance at a later date, when the home market is less prosperous. The maintenance of an active overseas business at the present time, even though it may involve a loss of potential profits now, in fact represents a prudent investment—an insurance premium against a less easy state of affairs in the home market in years to come.

Owing to this neglect, the existing machinery of foreign trade is being neglected. It is also becoming obsolete as a result of radical changes in the structure of industry and trade and the nature of consumer demand the world over.

Functions of Merchants

British export trade was built up during a period when trade was fairly free, population and the demand for imported commodities in Great Britain were growing together, and overseas territories were being opened up by capital exports and migration. The multiplication and diversification of the commodities entering into international trade had not, by modern standards, proceeded very far. The merchant house played a large part in the handling of trade during this period. The merchant's outlook was essentially opportunist. The merchant acted not only as an exporter of goods from the U.K. but as an importer and distributor of the produce of the countries to which he sold, and did a variety of other business as well. He therefore performed a vital function in arranging export and import transactions, thus keeping trade moving and facilitating the rapid circulation of funds invested in trade. Moreover, merchants also facilitated the growth of multilateral trade since they were generally ready to buy or sell in any market. And since British merchant houses were closely in touch with the unrivalled facilities of London banking and finance, they brought the cheapest possible means of trading within reach of the world.

There have been two main types of merchant house. The first operates mainly from a United Kingdom port as an exporter of British goods to foreign importers. The second type performs a more elaborate function, being frequently domiciled in the country with which it principally deals and having invested the major part of its capital in maintaining importing and distributive organisations there. The second type has therefore acted as an importer abroad as well as an exporter from Great Britain and has come to acquire a larger financial stake in foreign markets and a much more intimate knowledge of conditions there than the house operating mainly from an English port.

Decline of Merchant Business

The purely merchant business of merchant houses has been declining for some time from a number of causes. In the first place, the composition of the goods entering into

international trade has been changing in such a way as to necessitate more specialised selling, based on technical knowledge of the goods concerned, and sometimes also the provision o service after sale. Merchant houses did not possess this technical knowledge and could not always afford to supply it. Some merchants have made strenuous and not unsuccessful efforts to meet this difficulty by closer collaboration with manufacturers, and even exchange of staff. But for the most part, merchant houses have failed to keep pace with these changes in market requirements, and have come to render less satisfactory service to the manufacturer. That is one side of the picture. If, on the other hand, merchants have done well and have succeeded in developing a growing and important market for the products that they handle, manufacturers begin to become interested in distribution and in taking the merchant's profit for themselves. Merchants have, in other words, suffered to a fate to which all pioneers are subject, whether in trade development, invention or mining.

Apart from technical and internal causes of this sort, British merchant houses have suffered from increasing competition from foreign firms. This competition has taken the form mainly of the growth of local importing houses which may displace a British importing firm of the second type described above. Moreover, the development of local banking has affected the financial business of the merchant house, while, with the growth in organisation of industry and commerce alike in foreign countries, an increasing volume of orders is probably placed direct with the manufacturer in this country instead of passing through a merchant house as formerly.

The third, and possibly the most drastic cause of the decline of merchant business has been the growth of impediments to two-way trade arising from a number of causes. Merchants are vitally dependent upon their ability to trade both ways in order to keep their funds mobile. In recent years a number of influences have arisen which have hampered the free flow of merchant funds. Of these, the most important are the growth of protection in the United Kingdom; the growth of one-way export selling by large British manufacturers; the general growth of exchange restrictions and the decline of multilateral trade, and the growth of State trading. The British tariff increases the difficulties of merchant houses in importing goods as a means of liquidating their export transactions. The growth of one-way export selling not only deprives the merchant of export business, but helps to cause exchange difficulties in the importing country with adverse effects on whatever merchant business remains. The growth of exchange restrictions has resulted in the freezing of merchant balances in many foreign countries. Where State-trading has been adopted, merchants must obviously lose business, except in so far as they continue to be used or tolerated by State-trading institutions.

Agency System

Some manufacturers have made use of the agency system in conducting export business, and this system is, in fact, much more popular with British firms than with most of their foreign competitors. But there are serious practical difficulties for the manufacturer, especially if doing business in a small way, first of all in finding a suitable agent, and then in working out satisfactory arrangements for maintaining effective contact at all times. The agency system can work well, if sufficient care and attention is expended on its organisation, but it can also work very badly.

Need for a New Export Technique

The following position therefore exists with regard to the state of export organisation. The old merchant system has been breaking down, partly from the effects of the growing complexity of trade, but partly from hindrances to that mobility of funds which is essential to the successful conduct of merchant business. Large firms have solved the problem of foreign marketing fairly satisfactorily from their own standpoint by adopting direct selling through marketing organisations abroad under their own control. Many smaller firms, unable to bear the cost of direct selling, are continuing to conduct their business through agents, which is not always a very satisfactory method of trading, unless very carefully organised.

Viewed from a wider angle, the effects of these changes are disquieting. The ability of foreign countries to buy British goods is largely dependent upon their ability to sell their own produce and services, if not in the U.K., at any rate in some other free market. Merchants facilitated two-way trade of this sort, and have, in fact, been highly dependent on it. But neither the overseas sales organisations of large firms nor the agents who represent small manufacturers are interested in two-way trade; they are essentially channels for one-way selling. The selling organisations of large firms are encroaching increasingly upon one function of the merchant house—general export business in British manufactures. For in order to cover the fixed costs of maintaining an elaborate sales organisation abroad, large firms are increasingly undertaking the sale of goods complementary to or quite outside their own range of products; thus acting, in a sense, as general export merchants, and encroaching upon the business of genuine merchant firms. But while they are thus reducing the export turnover of genuine merchants, they are not adopting the other primary function of merchants, which is to keep trade liquid by conducting two-way trade.

The decline in the volume of merchant business due to the combination of factors mentioned above is compelling merchant houses to seek new outlets for their activities. They are finding these particularly in local industrial development, but whether this is advantageous to British interests in general in the long run, or a safe medium for the activities of merchant businesses, is another matter. The merchant houses possess an accumulated wealth of knowledge and experience of the economic and psychological conditions and requirements of the markets in which they operate. This asset is of incalculable importance to an efficient and thriving export trade. Yet there is a danger of it being dissipated or put to other uses. At the same time, there are obvious gaps in the existing structure of export organisation which must be filled. The problem is one, therefore, of devising machinery by which the undoubtedly valuable assets of the merchant can be put more effectively at the disposal of the manufacturer.

Changing Conditions in World Markets

There is something to be learnt from the export methods of other countries which have, generally speaking, relied more than British manufacturers on direct selling and direct representation abroad. At the same time they have developed to a much greater extent the system of joint representation. Foreign manufacturers seem to have less difficulty in obtaining men of first-class technical qualifications to serve abroad. The

export of experts assists in more ways than one a flourishing export trade in goods. Insufficient attention has been given in this country hitherto to the training of personnel for service abroad, nor is the remuneration offered and the security of employment sufficient in many cases to attract the best men, in view of the opportunities available in the home market. Owing to more direct and thorough representation, and sometimes a more sympathetic approach, foreign firms are often more receptive to local colour than British exporters, and better informed of local tastes, preferences, and peculiarities. British manufacturers often fail to appreciate the importance of attention to these seemingly unimportant details. But it should be remembered that the greatest potential markets of the future lie in territories where the standard of living is still low and consumer psychology is primitive and peculiar. Moreover, over the world as a whole, the requirements of consumers are becoming more exacting as the standard of life rises, and as the consumer's range of choice increases with increased competition. Consequently, export markets need to be more carefully studied to-day and export methods overhauled. Methods which were effective thirty years ago are no longer good enough to-day. These factors are largely the result of economic growth and not merely the effects of a period of exceptional depression. The transformation of the "seller's market" of the nineteenth century into the "buyer's market" of recent years is more fundamental than that. And from this emerges the importance of cultivating the goodwill of export consumers at all times, irrespective of booms and slumps.

In the present state of export organisation the difficulties which face the small manufacturer in surmounting these obstacles are enormous. When, in addition he is faced with official restrictions on trade and impediments to the transfer of export proceeds, it is not surprising that the smaller manufacturer often decides to concentrate his activities on the prosperous home market. In so far as it is the small firms of the present which often develop into the new industries of the future, every encouragement should be given to them to export in order to preserve the vitality of the export trade.

Helping Customers to Sell

The intensive methods of selling and sales development adopted by the larger manufacturing firms have, to some extent, provided the solution for the problem of adapting export organisation to modern market conditions. But it must be realised that the efficient presentation of goods at the lowest possible price will avail little if the consumer has no funds wherewith to buy them. And the amount of purchasing power which is possessed by the consumer is directly dependent upon his ability to dispose of his own goods in world markets. Merchant houses fulfilled the function almost automatically of helping their customers to sell. The large firms have not taken over this function from the merchant, and have, at the same time, reduced the merchants' ability to perform it by taking part of his export turnover.

It is suggested that the customers of the British export trade and, therefore, the British export trade itself, might be helped by developments on the following lines. British manufacturers, though they can efficiently undertake the export sale of goods which they do not themselves make, can hardly be expected to extend their activities to buying and distributing the produce of their export customers. It is, therefore, necessary

to devise methods of organising the export of the produce of Britain's export customers with something like the same intensive efficiency. Something can be done indirectly if British firms can be made to see their own long-term interests sufficiently clearly to be willing to assist the reasonable economic aspirations of foreign countries for more rapid industrial development. It is true that the development of domestic industries to produce goods which were formerly imported may in some degree have direct adverse effects on British merchandise exports. But it should be remembered that such development is taking place already, and will continue to take place whether British manufacturers like it or not. It is better, therefore, that this country should take a wide view of the future of its export trade and that individual manufacturers should take a wide view of all their future potential sources of income. If the growth of foreign industries is allowed to proceed, as it otherwise will, without the assistance of British finance, capital goods and skill, the present export trade in certain goods will be lost without any compensating advantages. If, on the other hand, manufacturing industries overseas are assisted to develop on sound lines with active British participation, the inevitable decline in the export of staple consumption goods from the United Kingdom should be offset by rising exports of specialised and capital goods and services, and the individual manufacturer should be able to conserve his profits from abroad through investment interests even if his shipments of goods decline. Moreover, if the development of industry overseas is controlled in this manner, the inevitable transition in the composition of the British export trade away from the old staple lines towards new technical products, should be made much easier and less productive of dislocations.

Direct assistance to foreign nations could be provided by the provision of finance, technical advice and commercial services for the purpose of organising trading companies to secure the more efficient handling of the export produce of relatively undeveloped countries. Many classes of British manufacturers would profit from large schemes of capital development overseas in the shape of increased orders for materials and equipment. British financial interests would probably welcome an opportunity of financing such projects provided they offered sufficient security. Many countries are anxious to undertake projects of capital development, but are prevented from doing so by the inadequacy of internal capital and inability to develop a sufficiently favourable balance of payments to finance development out of income, or to justify the raising of funds externally. Their ability to proceed depends in many cases upon ability to place their exports to better advantage. At the same time, they are understandably anxious that any schemes of internal development should be carried out under their own control. A proposal which is developed in more detail in the body of this report is that British manufacturing, commercial and financial interests, which are likely to benefit from the acceleration of capital development abroad, should combine with the governments concerned in forming trading companies for the purpose of organising the export trade in the produce of those countries. A few foreign governments are already moving tentatively in this direction of their own accord, but their efforts would be strengthened by the assistance of the superior financial, technical, and commercial assistance which the U.K. could provide. There are obviously great practical difficulties in organising companies of this nature, but we believe that the principle is worthy of serious consideration.

Export Consortia

The above suggestions apply mainly to the operations of the larger firms. Smaller firms are essentially in a different position, since most of them have not, acting on their own account, sufficient resources to justify an attempt at developing an intensive system of export selling through overseas branches or subsidiaries. For them combination in export sales organisation would seem to be the most promising solution. The individual resources of a number of firms if applied jointly for the maintenance of a single sales and development organisation abroad, are capable of producing better results than if they are applied in competition. We, therefore, advocate the formation of loose consortia among manufacturers in association with a merchant house and, if necessary, with banking interests, for the purpose of jointly developing a specified territory. Such associations are particularly suitable for handling trade in complementary products, in order that a complete range of services can be offered to the consumer through one organisation. The participation of a merchant house, with its local experience and local funds, would be essential to the success of this type of enterprise. The idea is not entirely new, and represents an attempt to bring the valuable resources of the merchant into closer touch with the needs of industry. It is, in a sense, a development out of the growing importance of merchant agencies. Utilisation of the resources and experience of merchants, which are in danger of being dissipated under present conditions, must, in fact, form the core of any policy designed to improve the efficiency of export trade by devising new types of export organisation. The problem is one of devising a system within which the valuable assets of the merchant house can be placed more effectively at the disposal of industry. The old system, as we have shown, is failing to produce the best results under the strain of changing modern conditions.

Government Assistance to the Export Trade

A certain amount of assistance in the conduct of day-to-day export business is provided by the government commercial intelligence service built up since the War in the Department of Overseas Trade. This service is of particular value to the small manufacturer, though it should be emphasised that at all times it is an ancillary service which cannot do much to increase export trade unless the trader is prepared individually to seek the assistance of the Department. Since there appears to be some misunderstanding regarding the functions of the Department of Overseas Trade—which are more strictly circumscribed than is sometimes supposed—we have included a description of its scope and organisation. The foundation of the Department and the effective organisation of a commercial diplomatic service dates only from the end of the War. The Department is subject to the dual control of the Board of Trade and the Foreign Office, and exercises some of the functions of both in relation to the export trade. It is not sufficiently realised that the Department's responsibilities are largely confined to the assistance of export traders in their daily business with foreign countries. It has, for instance, no responsibility for the external commercial policy of the country which is shared by the Board of Trade and the Foreign Office, or for import policy which falls within the scope of the Board of Trade and the Import Duties Advisory Committee. The Department is charged with the general administration of the overseas commercial diplomatic service (in foreign countries)

and the trade commissioner service (in Empire countries). It seeks to fulfil its function of promoting British exports by the collection and dissemination of commercial information, and by the efforts of its overseas officers in personally assisting firms and their representatives in obtaining and developing markets overseas.

Extension of Government Commercial Services

The field which the Department covers is vast and complicated, and it is difficult to believe that the finance at present available is fully adequate for the task which a government organisation of this type might undertake. The net vote of expenditure for the Department (that is to say, excluding certain self-supporting activities such as the British Industries Fair) was little more than £450,000 in 1936/37, which represents only about one-tenth of 1 per cent of the value of British direct exports in 1936. This can hardly be described as an excessive charge on the nation, and even if the vote were substantially increased there is little doubt that the increased cost would be easily offset by the improvement in services which the Department could provide. The American Government has at times spent proportionately three times as much on the promotion of United States exports, and in several respects the services provided by the Department of Overseas Trade do not compare very favourably with those offered by its opposite number, the United States Bureau of Foreign and Domestic Commerce. This is the case in connection particularly with the information which the United States Bureau collects and disseminates on the productive activities of other countries. The Imperial Institute, which is under the control of the Department of Overseas Trade, does invaluable work of this nature on Empire materials only, though the finance which it receives from Empire governments is inadequate for work on any large scale. It would appear that insufficient attention has been paid by the Government to the more indirect methods of promoting export trade, though it is clear that the Department of Overseas Trade is handicapped to some extent in this connection by the rigidity with which its terms of reference are limited to direct methods of trade promotion.

An increase in government expenditure on trade promotion activities should, however, only be contemplated if it can be permanently maintained, since continuity is one of the most important factors in the creation of a successful service of commercial information overseas. The U.S. Government, which at one time spent proportionately much more on trade promotion than the United Kingdom, was compelled to cut the expenditure of the United States Bureau of Foreign and Domestic Commerce very drastically during the slump, and the Bureau's utility has undoubtedly suffered thereby.

Improvements in the official commercial intelligence services would seem to be needed most urgently at the following points, which should have first claim on any increased revenue. Commercial diplomatic officers abroad can perform valuable services to business men by the organisation of their personal contacts. They would seem to be prevented from making the most of their opportunities in this direction and from travelling as freely in their territories as might be desired by inadequate salaries and the prior claims of routine work. Increased finance and increased staff would help to solve these difficulties, but, if no substantial increase in finance can be made, the possibility might be examined of making more use of honorary consuls in foreign countries. These are

often local business men and can provide British representatives, both official and industrial, with very valuable local knowledge of a detailed and specialised kind. In the second place, an improvement is urgently required in the very inadequate accommodation in which the Department is at present housed.

Financial Measures to Assist International Trade

Apart from the discussion of general economic policy, the suggestions so far put forward for the improvement of the mechanism of trade have mainly been concerned with questions of organisation. It remains to consider in what ways financial measures can be used to assist the mechanism of trade, as well as the influence which finance can exert on the success of general policy.

The relationship of finance to international trade is essentially one of dependence, and it is impossible to expect that the provision of finance alone will recreate facilities for trading which have been destroyed by other agencies. Finance can be used to oil the wheels of such trade as it may be currently possible, in the light of other factors, to carry on, but its use depends on the prior existing of the trading machine. If opportunities for trading do not exist, financial measures themselves are of no avail in creating trade. Hence while finance has a part to play in rebuilding a larger structure of international trade, it can only be used effectively in conjunction with other and wider measures of an economic and political nature. It is true that a country may, for a time, by manipulating the external value of its currency, succeed in securing for its traders temporary advantages of a kind which compel other countries to protect themselves by creating obstacles to the expansion of trade. Under present conditions the misuse of international financial machinery has been at least as fertile a source of hindrance to the exchange of goods and services as tariffs, quotas and other more concrete impediments to trade. The tripartite currency agreement of September 1936 was intended to lead to the removal of a large number of these trade barriers in so far as they arose purely from financial difficulties. But the agreement has not, in the event, had the successful effects which were expected in some quarters, although it provides a basis on which to work, and it is therefore necessary to consider new constructive action.

Regarded purely from the standpoint of their respective financial policies, there are three main groups of countries to be distinguished in the world at the present time. The first of these comprises the principal creditor countries—the United Kingdom, the United States, France, Belgium, Sweden, Holland and Switzerland—all of which have now readjusted the external values of their currencies and which are, as a group, facing a situation in which the continuance of an unwanted influx of gold and capital seems likely to have embarrassing internal consequences. The U.S. Government in fact is being compelled to borrow money for the purpose of buying and "sterilising" gold imports in order to minimise the inflationary effects of continuous capital imports upon the internal monetary structure. The measures adopted are, however, only a palliative. The plethora of funds in the creditor centres is accompanied by acute shortage elsewhere. The real problem is one of maldistribution of capital; it is not enough that money should be plentiful in the leading creditor centres while enterprise is starved elsewhere.

The much larger debtor group falls into two main divisions.

There is, secondly, a number of industrialised debtor countries, such as Germany, Italy, Japan, and, to a smaller extent, Poland. These countries have not for the most part been able to manipulate their currencies openly, but have been engaged in attempting to secure an effective graduated depreciation by discriminating methods of exchange control. By this means, some of these countries have tried to buy at one rate of exchange and sell at another, and to extort forced loans from the countries with which they trade, or from their creditors. Their policies have been conditioned by the necessity of supporting a given volume of production and consumption upon inadequate financial resources. Their position has not been improved by the rise in the general price level of the raw commodities which, as industrialised countries, they must buy in large degree on world markets.

Thirdly, there is a large number of countries, most of them predominantly primary producers, which are either debtors already on a large scale or large potential borrowers. These countries suffered severely from the dislocation of their balances of payments during the depression and tended to seek a solution for their immediate difficulties by attaching themselves to a country in one or other of the two former groups. These countries still have their problems in the shape of insufficiency of internal capital and the burden of past indebtedness, but, as primary producers, they are tending to benefit from the natural consequences of rising commodity prices.

Problem of the Industrial Debtor Countries

Purely from an economic standpoint, the point at which an attack by financial measures upon these various difficulties ought to be begun is the problem of the industrialised debtor countries. If this problem could be solved, its solution would contribute much towards the alleviation of the difficulties of the primary producing debtor group which needs, fundamentally, increased markets. But the problem of the industrialised debtors is not merely one of finance and cannot be solved by financial measures alone. The difficulties of some of these countries do not arise merely from ordinary financial and economic causes, but are, rather, the result of financial and economic policies which have been forced to fit larger national aims embracing also social, political and even "racial" objectives. In default of a comprehensive agreement to co-operate in all these spheres, the extension of piecemeal financial assistance by the creditor countries must be regarded as impossible and highly dangerous, since it might only be used to strengthen isolationist tendencies based on grounds which must appear to be economically unsound in the long run. In fact, financial assistance ought to be extended at any time only as part of a wider scheme of co-operation.

Reconstruction Lending

As soon as a certain political and financial stability within the creditor group can be established—and the slow progress of natural forces in this direction needs to be reinforced by constructive action—it should become possible to make increasing use of the surplus resources of the creditor countries, in conjunction with purely economic measures, to secure an improvement in the position of such of the hard-pressed countries as are willing to co-operate at all points. It would seem, on the one hand, that long-term

capital is likely to be required for purposes of reconstruction and economic development, and, on the other hand, that a larger volume of international trade will require increased short-term financing. Reconstruction lending will be required for the purpose of balancing budgets or stabilising currencies in foreign countries. It is important to remember that lending of this sort is economic only in a general sense, and must be conducted with a full understanding of its nature. For, though loans for these purposes can in theory be secured, the security can seldom be enforced, and the loan is not automatically self-liquidating in the strict sense. Such loans can only be expected to bring in a return in a general and indirect form, by the consolidation of the assets of the debtor and the general amelioration of the trading position. For this reason it may be profitable for the lending country as a whole to make loans of this type, but since the benefit is likely to be general, so should the risks involved in making the loan be generally shared. And this can most equitably be achieved if loans for reconstruction purposes are made subject to a guarantee to the private investor by the government of the lending country.

Development Lending

Since the "old debtor" countries are already linked in large degree to one or other of the creditor powers there is no serious obstacle to the resumption of purely economic lending or investment for development purposes, other than the existence of unliquidated past debts. But the process of debt reorganisation is actually proceeding rather faster than is sometimes supposed. As the expansion and differentiation of international trade proceeds, opportunities of foreign investment for purposes of economic development are likely to increase. Such investments are essentially of a directly economic nature, and in so far as they contribute directly to the development of the fixed assets of the borrowing country they can be regarded, broadly speaking, as directly self-liquidating in a sense which does not apply to reconstruction lending. It is seldom possible to compel the borrower of funds for capital development to spend it on the purchase of goods in the country where the loan is raised. No agreement to this effect is likely to be very binding, and only if manufacturing costs in the lending countries are fully competitive is this condition likely to be fulfilled in practice. Fortunately, the United Kingdom appears to be much better placed in this respect than was the case in the post-war decade. This is a point of some importance, since the ability of a creditor country to lend depends to some extent on the success with which loans can be correlated with exports of goods. The process of linking foreign lending with the export of British capital goods would probably be facilitated if greater attention were paid to the question of providing technical assistance to foreign borrowers for capital development purposes. In order to minimise the disruptive effect on current trade which is exercised in times of depression by the efforts of debtors to continue to transfer a fixed burden of interest, or creditors to collect what is due to them, it is desirable that as much foreign investment as possible should be undertaken on an equity basis in future, where economic and political conditions permit. On balance, as the experience of recent years shows, the security of legal rights to fixed interest payments can be largely illusory. Some such procedure is necessary in order to ensure that the effects of depression are equally shared by creditor and debtor, and that the recovery of the debtor is not impeded by the existence of a burden which he is temporarily unable to bear.

In so far as capital exports can be correlated with exports of capital goods, as already mentioned, the strain imposed upon the balance of payments of the lending country in making foreign investments is minimised. While, therefore, the flow of foreign investment need not be conditioned strictly by the position of the balance of payments of the lending country at any moment, the ability of a country to lend abroad regularly will depend upon the existence of a running surplus in its balance of payments of current income over current outgoings. It is, at any rate, desirable, in the interests of its own stability, that a country should not lend more than the running surplus of income over outgoings. In the interests of international stability, however, a creditor country should lend up to the full amount of this surplus, and should do so with full appreciation of the fact that the surplus will thereby tend to be increased in future years by the amount of the service on the loan, unless the appropriate adjustments are made to the national economy, by permanently increasing imports or reducing exports. Since the United Kingdom is a country which imports mainly raw materials and exports mainly manufactured goods, the adverse balance of merchandise trade of this country will generally tend, apart from a major change such as was caused by the depreciation of sterling and the introduction of tariffs, to be smaller in times of depression and early recovery than in times of boom. For the price level of raw commodities tends to fall in times of slump much more drastically than the price level of manufactured goods. Hence, if it is considered desirable that something should be available for foreign investment, it is of great importance in times like the present, when the excess of merchandise imports tends to be large, that every effort should be made to encourage a flourishing invisible export trade. For it is the income from past foreign investment and from invisible exports which pays for the excess of imports, and contributes any surplus of income over outgoings for investment abroad.

Treasury Control of Foreign Transactions

In recent years, the United Kingdom has not had large sums available for foreign investment compared with past experience, though it is impossible to be precise on this point since numerous difficulties peculiar to the past few years have made accurate computation of the balance of payments very difficult. There was, at any rate, a large surplus of outgoings over income in 1931. The depreciation of sterling was in some sense both the consequence and the cure for this and it was reinforced by the introduction of a wide tariff. At the same time, the Government virtually assumed control of the volume of foreign investment, ostensibly for the purpose of protecting the currency. The control has been quite informal and depends upon the goodwill of individuals and institutions in the City of London in respecting the "advice" which is given them by the Treasury. It must be admitted, however, that the Treasury has also a certain informal ability through its influence with the Bank of England and the Stock Exchange Committee to make things unpleasant for dissentients. The control has been relaxed in certain directions in course of time—for instance, in favour of Dominion borrowers, and certain types of loans by foreign borrowers within the sterling area. But it has been tightened in other directions, and applies effectively not only to new issues, but to any single capital transaction abroad involving the transfer of sterling in large amounts.

In view of the fact that there is no adequate opportunity for public debate or control of the Treasury's policy, and that its influence has clearly on certain occasions been used for purposes other than those originally stated as being the objectives of control of foreign transactions, this dictatorship by the Treasury—for it amounts to that—must cause a certain amount of anxiety. Not only does the policy pursued appear at times to be questionable, without being effectively subject to public control, but the methods employed are not wholly efficient for the purpose for which they are intended. The position has not been materially improved by the appointment of a Foreign Transactions (Advisory) Committee to assist the Chancellor of the Exchequer. The fact is that certain international capital movements—such as dealings on foreign stock exchanges and the disposal of the proceeds of exporters—are not susceptible to the present control or, in fact, to any control short of a rigid regulation of allotments of foreign exchange. This means that an undesirable development in the general situation which is caused by these uncontrollable movements can only be corrected by penalising other activities which may, in fact, be highly desirable. We believe that the whole question of Treasury control needs to be re-examined on grounds both of principle and of the wider requirements of national policy at the present time.

Government intervention in financial business has also extended to the field of short- and medium-term credit. The medium-term credit, which is bound up specifically with a particular contract, is a modern development which is founded in part upon basic changes in the technical and economic conditions of industry, and in part upon difficulties in raising capital abroad arising out of the depression. It is in part, therefore, a permanent development which deserves to receive more attention from private financial institutions.

Government Competition in Trade Financing

Government intervention in this field has increased through the instrumentality of the Export Credits Guarantee Department. From dealing with current trade in a small number of countries, the Department has come, in course of time, to guarantee credits on exports to any country for a period of up to ten years and, subject to certain conditions, will ensure not only credit risks (the risk of insolvency of the buyer), but also transfer risks (the risk that the buyer will not be able to pay in sterling). Unquestionably, the Department has performed a valuable service in facilitating business with certain countries where, during the last few years, financial risks have been so great that it could not have been undertaken by private enterprise. But the Department does not exist solely for the purpose of assisting or subsidising exports to difficult areas. It has always set out to operate on an entirely commercial basis. Hence, in insuring transfer risks, the Department has made it a condition of business that the firm wishing to obtain cover must place the insurance of credit risks on all its export business with the Department. This means, in effect, that the Department is taking in a large volume of business which private institutions are quite competent to conduct cheaply and efficiently. And the conclusion cannot be escaped that this factor is tending to increase the average cost of trading abroad which might become a serious handicap to British export trade at a time when international trading conditions become less abnormal.

The Use of the Trade Bill

At one time, a large volume not only of British overseas trade, but of world trade as a whole, was financed cheaply and efficiently through the machinery of the London acceptance houses and the bill market. The technique of trade financing by the bill of exchange is extremely complicated, and traders can only be expected to use it if expert advice in its use is readily available to them. In the past, the combination of a number of circumstances ensured this. London acceptance houses built up an immense knowledge of the exact credit-standing of individuals and institutions the world over. To this extent, they acted as the intelligence service of the British banking system, and the agency through which the debt of one individual to another could be transformed into a negotiable and self-liquidating security at the lowest possible cost. Moreover, as long as the British banking system was regionalised, there was always a good demand for readily-negotiable securities of this type as a bank investment of a high liquidity; and bankers were actively interested in maintaining the supply of London bills by instructing traders in their use. In addition, the undisputed supremacy of sterling as the major world currency, and the cheapness of London's financial services, encouraged foreigners to conduct their trade through the medium of the sterling bill.

The use of sterling as a common trade currency had certainly begun to decline before 1931. In the first place, the willingness of foreigners to contract obligations in sterling depends partly upon the confidence with which foreigners regard their ability to provide sterling in order to liquidate these obligations, and the general instability of currencies must have an adverse effect on the use of sterling in this connection. The growth of exchange restrictions since 1931 has had further adverse effects in this direction. In the second place, the depreciation of sterling in 1931 had some effect, even though temporary, on its position as the major currency in international trade. In the third place, the decline in the importance of the business of the London commodity exchanges in relation to the total volume of international trade, has had effects tending in the same direction.

But at the same time, the trade bill became less popular as a medium of investment. The growth of the highly centralised clearing bank system has led to an economy in cash holdings in the British banking system as a whole, and therefore to a decline, proportionately to total assets, of the demand for liquid investments. At the same time, the supply of liquid investments has been enormously increased by the growing circulation of Treasury Bills, and bankers have tended to encourage the more lucrative system of trade financing by overdraft. There is reason to believe, however, that bankers would now like to see a revival of the trade bill for investment purposes in view of the difficulty experienced in employing their funds elsewhere and the low level of interest now obtainable on government paper. As a means of conducting trade cheaply the revival of the trade bill is to be encouraged, but it would necessitate an overhaul of the London financial machinery, which has tended to become rusty with disuse, and a campaign to educate traders anew in the use of a system of trade financing which they have largely forgotten.

Invisible Exports and Exchange Stability

But it must be admitted that the revival of the sterling bill is impeded above all by exchange instability and exchange restrictions, since foreigners will always, for obvious

reasons, hesitate to commit themselves to liabilities which they know they may be unable to meet. Something can probably be done to encourage the use of the sterling by laying emphasis on its cheapness. But its full revival, and indeed, the revival of all British invisible exports, which seems so important under present conditions, depends upon the attainment of greater exchange stability. Progress towards this end can be achieved by reconstruction lending on the lines outlined above, as opportunities occur. But reconstruction lending, or, for that matter, any international lending, can only begin if a prior condition of greater stability within the creditor group of countries has been assured.

It may be, and often is, urged that the *de facto* stability which has been preserved between the major currencies in the last few years, and more particularly since the tripartite currency agreement of September 1936, is conducive to this end. But, in the event, the effects of such measures as have been taken are, to say the least, disappointing, and it may be doubted whether an agreement which is subject to denunciation or variation by the participants at such short notice, provides a real basis for that confidence which is necessary for the re-establishment of sterling as an international currency and the resumption of lending by the creditor countries.

Practical Aspects of Currency Stabilisation

The British Government, while reserving its freedom of action, has from time to time declared its intention to re-stabilise sterling eventually. It is clearly unwilling to do so as long as other important currencies remain "free" or markedly out of alignment with their apparent economic parities, and doubtless other governments feel the same. Accordingly, the re-stabilisation of the major currencies is dependent upon international agreement. In contrast to the obvious political difficulties in securing agreement, the economic difficulties which led to the abandonment of former parities, would appear to have been greatly alleviated. In the first place, the increase in world gold production has greatly reduced the difficulties which resulted from a shortage of monetary gold. In the second place, experience in the control of currency policy during the period of "managed currencies" has led to the evolution of a new monetary technique whereby internal conditions can be partially insulated from external forces through the mechanism of exchange funds or dual currency reserves. In the third place, a new agency of international financial co-operation exists in the shape of the Bank for International Settlement.

Moreover, much progress has been made in the fundamental readjustment of British economic and financial conditions in the last five years which places the United Kingdom in a stronger international economic position than in 1931 or 1925. Further, while the process of economic recovery and the intensive demands of rearmament activities have, in course of time, brought production in the home market into a condition bordering upon full employment, certain branches of the national economy which are more intimately associated with external activity, have remained, if not depressed, at any rate seriously under-employed. The question therefore needs to be asked whether the continuation of an indiscriminate stimulus to internal activity is likely to add to permanent stability and whether, in fact, the financial policy which was right in

the circumstances of 1931 to 1936 is necessarily the right policy in the changed circumstances of 1937. A boom based mainly on internal activity and armament construction is too narrowly founded to last for long and the trend of events is demanding with increasing urgency the development of external activity as a balancing factor. It cannot be expected that a financial policy designed principally for the purpose of stimulating internal activity will prove the most effective policy also for the encouragement of external activity, For this reason a change of direction seems necessary, and a change particularly towards the creation of an international exchange position which will permit the recovery of British invisible exports. It has been argued at times that a prolonged period of testing is necessary before any rate can be fixed upon, at which re-stabilisation could safely be undertaken. But it is necessary to add in this connection that since the effects of *de facto* stabilisation are likely to be very different from those of *de jure* stabilisation, conclusions drawn from the one are not likely to be wholly applicable to the other. Moreover, the criterion by which the effects of maintaining any given rate must be measured—its reactions upon the equilibrium of the balance of payments—is itself not very easily measurable. For the effects of currency fluctuation and certain other factors combine to render very approximate indeed the somewhat inadequate calculations of the national balance of payments which are made by the Board of Trade.

We have hitherto considered the problem of securing an expansion of international trade mainly from the purely economic aspect. But it is necessary to take account of the practical effects of modifications of national economic policy which were mentioned earlier as arising from social and political factors. The modifications introduced from these sources are a powerful factor to-day.

Effects of Agricultural Policy on International Trade

Certain important modifications are introduced by the present trend of agricultural policy. The restriction of British agricultural imports from overseas countries according to the policy instituted in 1931 must restrict the ability of agricultural producers overseas to purchase British export goods, and for this reason has been attacked by those who hold strict "free trade" principles. In fact, the rigid specialisation of activities as between industrialism in this country and primary production overseas appears to have caused certain undesirable effects which must not be repeated. For instance, the low cost of production achieved by certain overseas agricultural producers in the past has turned out to be not entirely economic in the sense that it was achieved only at the expense of destroying the fertility of much agricultural land. The objectives of British agricultural policy should be, first of all, to secure ample supplies of cheap and nutritious food for consumers; second, to make the most of the natural advantages of British agriculture by improved technical and economic organisation; and third, to encourage the maintenance and expansion of a lively trade in agricultural produce with our export customers overseas.

Far-reaching changes have been taking place in world agriculture for many years, irrespective of the special factors introduced by the depression. The increase in the production of agriculture has not been accompanied by an equally rapid increase in consuming capacity. This and other factors have led to an exodus of population from

the land all over Europe, with the result that governments have had to take special measures to smooth over the transition or to prevent the movement from taking place. Until some sort of equilibrium is once again achieved, a relaxation of the political, social and economic pressure which is exercised upon international trade as a result of agricultural problems can hardly be expected. The attainment of equilibrium can be accelerated by the assistance of efforts to create secondary industries and by improvements in the mechanism of trade designed to improve the marketing of agricultural produce, in order to raise the return to the farmer while maintaining or reducing the price to the consumer.

Basic Needs of British Agricultural Policy

British agriculture is an important industry even in relation to agricultural activities in certain overseas countries which have become highly specialised in primary production. While we do not subscribe to the view that British agriculture should be stimulated because it is the "best customer of British industry," there is every reason why the attainment of an efficient British agriculture should be regarded as no less desirable than the building-up of efficient secondary industries overseas. Agricultural policy should therefore set out to raise the real income of British agriculture by methods which will not affect injuriously other British incomes or prevent the maximisation of the national real income as a whole; it should set out to assure ample supplies of good cheap food to the consumer and to make the best use of the natural economic productivity of the land. At the same time it is necessary to avoid the dangers which arise in times of slump or war from over-specialisation. Farm incomes are most likely to be raised by improvements in processing and distribution and by such technical changes in agricultural policy as will lead to the production of commodities for which British agricultural resources are best suited. These are mainly fresh foods for the home market which tend to command a high unit-value. Certain modifications to the technical possibilities in this direction must, however, be introduced according to the emphasis which is laid on various methods by which agriculture can contribute to the solution of problems of national defence.

Reconciliation of the long-term interests of the British consumer and industrial exporter and of home and overseas producers of agricultural produce depends, therefore, largely on the extent to which British agriculturists are willing to accept the emphasis on quality production and to discard other relatively unsuccessful lines. This, in fact, is identical with the policy which needs to be pursued in the export trade in manufactures. Government policy should be directed towards preventing a conflict between home farmers and home consumers on the one hand, and home farmers and exporters on the other, by using all the powers of government to secure the requisite transition in the productive activities of British agriculture.

World Standards of Living and the Trade in Agricultural Produce

In the highly artificial conditions of the past few years, when the United Kingdom proved to be almost the only remaining free market for many products, overseas supplies have sometimes been sold in this country at uneconomically low prices. In so far as this

has occurred, the British primary producer and indirectly the British industrial exporter have an interest in reopening alternative markets for agricultural commodities in other countries. Improvements in the mechanism of trade could help to develop these alternative markets. But a powerful influence making for greater freedom in international trade in agricultural produce has recently appeared in the shape of the movement to improve the nutrition of the masses and the standard of living in the world as a whole. It is not too much to say that this movement has captured the popular imagination in some countries and profoundly affected public opinion in others. There can be little doubt that the best solution to the difficulties of world agriculture lies in increased consumption, and it is possible to hope that the urge to achieve a higher standard of living will be sufficiently strong to break down the political and social prejudices which at present prevent a greater freedom of international trade in agricultural produce.

Influence of Politics on International Trade

Certain aspects of agricultural policy are not, however, the only extra-economic factors affecting or modifying the potential economic scope of international trade. No report which pretends to deal at all comprehensively with problems affecting international trade at the present time can fail to ignore the effects of political aspirations and of the part played in greater or smaller degree in national policies by the economics of war. We have accordingly ventured into the controversial field of international politics and attempted to point to certain factors which have profoundly influenced the development of international trade.

Post-War Politico-Economic Structure

The close inter-action of political and economic factors follows upon the results of the War and the developments of the immediate post-War period. The formerly powerful economic influence of the Russian, German and Austrian Empires was temporarily removed by political disintegration. The lead in economic reconstruction was left to the United States, Great Britain, France and Japan. At the same time the principle of self-determination, which was the basis of Versailles and the League Covenant, instilled a strong national feeling in the newly-created nations and inspired them with an urge to build up their national economies. This process was assisted by the loans which the United States poured into Europe, but that country was reluctant to exercise the political responsibilities which this great economic power thrust upon it and which became almost catastrophically plain when the depression arrived. The spread of newly-acquired nationalism, moreover, acted as a deterrent against the resumption of large-scale emigration, which was replaced by strenuous efforts to rebuild domestic agriculture to form the backbone of the new national economies.

The United States, having become for a time the world's most powerful creditor nation, continued to lend prodigally, but refused to accept the responsibilities of this position by either participating rationally in other world activities or allowing debtors to discharge their debts in goods and services. France felt convinced that French security depended on the maintenance of the politico-economic structure created by the Peace

Treaty, and policy was mainly directed to that end. The United Kingdom, in part consciously and in part intuitively, became increasingly preoccupied with the political and economic consolidation of the Empire and with adjusting its internal economic structure which had been gravely dislocated. Italy was not at this time a major force in world politics or economics, being mainly concerned with achieving internal stability and absorbing Fascism. In the Far East, Japan had been turning to good account the temporary withdrawal of other Powers from the Pacific area, in both the political and the economic sphere. The United States, Great Britain and Holland all felt the pressure of Japanese expansion at an early stage, but unfortunately care was not taken to develop the constructive aspects of a policy of Anglo-American co-operation in the Pacific area in order to facilitate economic adjustment and political tranquillity and to avoid action which might be interpreted by other nations as provocative. The League of Nations was to be one of the principal instruments of post-War reconstruction and did invaluable work in that sphere, but unfortunately its political responsibilities were interpreted differently by various of its members, and its authority was weakened at the outset by the decision of the United States not to participate. The primary explanation for the failure of the League to deal effectively with the really fundamental problems of the post-War world must, however, lie in the absence of any executive authority, which was inevitable in a body where instructions and decisions had to emanate from the independent representatives of sovereign States who felt themselves primarily bound by considerations of national policy.

The economic and political revival of the defeated Powers took some time to develop, but Germany set to work deliberately on an economic reconstruction from the ground up. The renewed German penetration of foreign markets was assisted by those Germans who had settled abroad before the War in many parts of the world. Russia at first concentrated on fomenting world revolution, with little success; but in course of time Russian policy became dominated more and more by the programme of internal economic development. Russian trade policy accordingly was dictated for a time by the urge to obtain foreign currency and resulted in a series of attacks on world markets, which caused grave dislocations—not probably from intent as much as from lack of experience and organisation. It is interesting to recall, in the light of subsequent events, that Russian development in the early stages was greatly assisted by Germany, which seems to have regarded Russia as a rich hinterland on the basis of which German power could be rebuilt.

World Situation on the Eve of Depression

On the eve of depression, the world seemed to fall into four main groups. The first consisted of the victorious Powers which were variously interested in reconstruction, economic development, the elimination of war, and the maintenance of the *status quo*. Then came those Powers, the chief of which were Japan and Italy, which, although not defeated in the War were feeling thwarted and possessed expansionist aims. The third group consisted of the nations which had suffered most in the War and were still striving to recreate themselves. Finally there were the new countries, still struggling to assert their national consciousness, but rapidly developing from their position as pawns in international politics to become formidable independent factors.

It is well to ask ourselves at this stage whether the adverse factors in world trade which became acute during the depression and which persist to this day, were implicit in the post-War structure. A number of them had begun to emerge at an early stage after the War, and were probably in large degree the inevitable consequence of the economic and political self-determination which were an essential feature of the post-War settlement. But many of these factors were crisis measures, though it is probably fair to say that both their acuteness and their permanence have been the result of failure to eliminate various points of political friction which have been intensified since the War. At the beginning of the depression certain of these points were clearly defined, and France was still mainly concerned with keeping Germany down and was tending to shut Italy out of certain lucrative fields of economic development. The pressure of Japanese Eastern industrialism and political expansion was coming increasingly into conflict with Western industrialism in the East. German economic penetration was again becoming felt in overseas territories and Russian power was spreading in the Near and Middle East and coming into conflict with Japan and North China. The United States and Great Britain felt the growth of these influences mainly in the field of trade, and being financially and commercially the strongest Powers, seem to have had confidence in their ability to keep them under control. But certain well-meaning attempts to link economic reconstruction and political appeasement were not sufficiently timely or far-reaching in view of the rapidity with which world events were developing. The incompleteness and tardiness of these attempts turned out to be disastrous, particularly in their failure to turn to good account the desire of German traders at one time to join in world co-operation. In the sphere of international politics and economics, the United States was not sufficiently conscious of her power to fulfil adequately the responsibilities of the world's greatest industrial and creditor nation, or to realise that such a nation cannot safely adopt a policy based solely on contradictory internal factors. Great Britain was becoming dangerously preoccupied with internal economic and financial problems, while France, politically the strongest Power in Europe, still adhered to the negative policy of thwarting Germany.

Meanwhile, the factors making for a world slump were rapidly gathering force, and certain undesirable features of economic nationalism were growing fast. The world depression, by depriving the United States and Great Britain of their means of guiding world events and by unleashing certain uncontrollable forces, completely upset the existing equilibrium. It exposed the unsoundness of the economic and political structure built up after the war and caused economic and political friction to coalesce. At the same time it made clear that world development depended on the active circulation of goods, services and population and this slowed down when Great Britain and the United States ceased to lend abroad. There followed the depreciation of sterling which, for the time being destroyed confidence in London and rendered Great Britain temporarily incapable of influencing world affairs. The world was then thrown back upon its own resources and the collapse of the structure which had been set up, together with the new political and economic trends then developing, set in motion a new combination of forces which entirely changed the situation.

We must at this stage emphasise the importance of psychological factors. The attempt, however half-hearted, of the economically and politically powerful nations to

reconstruct the world through the machinery of conferences had apparently failed. Conventional economic and monetary theories lost a great deal of support. New and exclusive political creeds arose and naturally aroused their own opposites. All this undermined once again the feeling of solidarity which had been increasing, and when the sanctity of treaties and the rejection of war as an instrument of policy were violated, the last vestiges of a moral order in politics and economics were gone. We do not mean to imply by this that such an order had been in existence. On the contrary, delay in its establishment was one of the fundamental factors of post-war instability, but the elements of it were undoubtedly there during the years 1925-1929, and have now disappeared because expectancy has given way first to disillusionment and then to fear. This psychological background is of the utmost importance for a proper understanding of the motives governing the present action of nations. The depression threw them back on their own resources and encouraged them to adopt methods of alleviation, the political and economic consequences of which were ignored in the prevailing state of *sauve qui peut*. The sudden cessation of lending and emigration forced many nations back upon agricultural self-sufficiency at a time when falling commodity prices still further depressed primary production. What was primarily an economic problem rapidly became an ethical and social one, so that the creed of economic nationalism which was expressed in the development of industrial self-sufficiency became elevated into a principle of national ethics, under which the status of agriculture became something good in itself and symbolic of a sturdy nation. This outlook happened to blend well with the political aspirations and grievances which were simmering. At the same time, countries which subsisted on the export of primary commodities found themselves without resources. The economic distress resurrected those revolutionary forces which had sprung from post-war chaos, but by this time there were also in existence new counter-forces equally strong. Thus, for the first time, the issue of "have" versus "have not" arose as a political doctrine, not only between classes but also between nations. The economic aspect of political creeds became not only an internal issue but an international one. Economic disintegration had thus shifted the balance from the use of politics for economic development to the use of economics as an instrument of politics.

Significance of the Manchurian Invasion

In the welter of crisis measures, two events stand out as shaping profoundly the future course of world history—the invasion by Japan of Manchuria, and Great Britain's decision to exploit the political aspect of the British Empire through the Ottawa Agreements and by the abandonment of the "open door" in the Colonial Empire.

Japan's opportunism in seizing part of China while the world was preoccupied with the problems of economic depression had consequences which we are still experiencing. The United States made a prompt move to safeguard the position in the Pacific and to enforce the sanctity of treaties. The American Administration appears to have attempted to obtain British collaboration, but without success. Whatever the reasons, the result was that the United States received what was interpreted as a severe rebuff and withdrew again into the politico-economic isolation which had already influenced the course of world events and was to have further disastrous results. It is interesting to speculate what might have been the subsequent course of events if Anglo-American collaboration could have

been made effective on that occasion. In the event, however, the authority of the League was merely weakened further. Japan was antagonised and the doctrines of the so-called "Hungry Nations" and of the "Economics of War" began to become dominating factors in world affairs.

Political Consequences of the Ottawa Agreement

The Ottawa Agreements were necessary to the logical development of the growth of the British Commonwealth as a group of independent units forming a potential economic and political whole and were dictated by the hard times through which the various Empire countries were passing. But Ottawa made clear to the world that the political ties binding the Empire were the dominant factor in the Empire's economic relationships. And whatever the exact constitutional significance and economic consequences of Ottawa, it is clear that foreign countries gained the impression, rightly or wrongly, that Great Britain was henceforth to use political authority in the Empire for her own ends and not primarily in the interests of world economic development. It is equally clear that the Ottawa Agreements were not intended to be an exclusive part of a strictly imperialist policy by British statesmen who probably regarded the Agreements as a first stage in a wider effort at reconstruction. But, unfortunately, the process of normal development by agreement was delayed and impeded; the World Economic Conference was allowed to break down, owing to the failure of economists and politicians to reconcile their ideas with events which had marched ahead of them; and meanwhile hitherto isolated and extravagant political ideas were allowed to crystallise and gather force. The world seems to have concluded that comprehensive schemes had no hope of acceptance, and that piecemeal arrangements offered better opportunities. While alleviating individual difficulties, this process left the principal problems untouched and allowed new political forces to gather strength until they came to dominate the economic mechanism. Financial deterioration and economic difficulties created new economic weapons which in many cases were merely crisis measures in the first instance but which, in powerful and unscrupulous hands, could and did become instruments for political ends.

Current Politico-Economic Policies

At this stage occurred the National Socialist revolution in Germany, which leads us up to an examination of the political influences affecting world trade to-day. Herr Hitler had sufficient internal difficulties in the first instance not to have rejected an equitable politico-economic settlement of outstanding difficulties with the Western Powers. But this opportunity was lost, for one reason or another, and Germany became set on a totalitarian course in which politics and economics, internal and external, were to be closely knit into a single whole. Yet the pattern of it may not, even now, be irrevocably cast. Dr. Schacht has certainly never abandoned the idea of bringing Germany back into the orbit of normal economic intercourse, though the economic measures which events have forced him to adopt have been far from normal and in the Four-Year Plan, in which they have now culminated, represent the most complete exposition of the "economics of war" which has yet been seen. Two main aspects of German policy may be distinguished, of which the first seems favourable and the second detrimental to world economic progress. The first is the development of overseas connections through shipping

services and other communications and technical and contract services. The second is a systematic attempt at politico-economic consolidation in areas adjacent to Germany. It has often been suggested that this involves ultimately penetration in an easterly direction towards the Ukraine. But the balance of evidence seems to suggest that German interests are more concerned with building a Mittel-Europa under German influence which would, in turn, dominate the Eastern Mediterranean and the Near East. It seems that if this policy is pursued, it may come into conflict increasingly with Italian policy which tends to run in the same direction. But Italo-German co-operation in the short period has been inevitable, if only to exploit to the full a situation in which Britain was hesitant and militarily unprepared, and the smaller countries tended to be demoralised.

The situation in the Far East has developed in a manner not dissimilar, for Japan has found a foothold on the Asiatic mainland to be less attractive than once seemed probable, and Japanese aggression has, on the one hand, only served to stimulate the consolidation of China, and, on the other hand, has run up against the increasing power of Russia. The question therefore arises whether any further expansionist efforts on the part of Japan may not be directed towards the Southern Pacific. But the consolidation of Russian political and economic development has had world-wide repercussions as well. Russia appears to be still interested in maintaining tranquillity in order to complete internal reorganisation. But Russia may at some future period enter a more dynamic political phase, and is already learning how, for instance, international influence can be wielded by an increasing production of gold.

The position of France in the international field is increasingly difficult, but the French have always been expert in the use of economic policy for political ends and *vice versa*. France relies on tranquillity over a wide area in the Mediterranean, and therefore imperialistic penetration in Spain or North Africa becomes of vital significance. French policy has accordingly been concerned particularly with the building of a Greater France through colonial assimilation and with maintaining politico-economic alliances with States which are politically or economically useful or must be kept out of other entanglements.

Since the United States has all the resources to become the dominant factor in world affairs, latest developments there may well prove decisive in the event of a crisis. It must be conceded that the Administration has an admirable desire to play a worthy part, even if internal politics inevitably cause actions to fall short of intentions. It is little short of disastrous that opportunities of closer collaboration with the United States which have occurred frequently in recent years, and are still occurring, should be allowed to slip by. For any encouragement strengthens the hands of those who appreciate the potentially great influence for good of the great resources of the United States, and any rebuff serves only to assist the blind isolationists.

Great Britain has been increasingly conscious of the importance of the Empire, and has therefore deliberately fostered economic relations as the main means of keeping some form of political coherence. But, unfortunately, the British authorities appear to have neglected the need to ensure peace in certain areas of the world which are vital for the Empire's safety on any long view, or to attempt to remove those economic grievances, real or imaginary, which so repeatedly lead to economic tension. Is it, for instance, a solution of the problem to dismiss, on the one hand, the colonial question as irrelevant to

the economic rehabilitation of the "poor" countries and, on the other, to refuse to consider any comprehensive plan of economic reconstruction which might involve a change of policy, or an element of risk, or a sacrifice on the part of Great Britain, such as a modification of the M-F-N Clause, the abandonment of bilateralism, and increased lending facilities? On the political side, is not the maintenance of the most rigid interpretation of territorial sovereignty and the indication that the maintenance of peace and justice in certain areas is of no particular concern to Great Britain liable to create an unfortunate impression that British policy is henceforth to be framed on reactionary lines—to preserve the present situation and abandon, for the time being at least—any broader constructive effort? Neglect of these issues would seem to be dangerous because it encourages the use of force, the development of the "economics of war" and at the same time makes Great Britain more and more involved in the latter, to her own great disadvantage in view of the highly complex economic structure and vulnerability of the scattered territories and extensive communications of the British Commonwealth.

The Economics of War

In considering the economics of war we must take account of the external and internal aspects as well as their general influence on the world economy. Externally they render essential the rigid control of trade and credit, in the first place to facilitate essential military imports, and later to eliminate the need for them. At the same time, labour and industry is conscripted in time of peace in order to build a structure which would only be fully employed in time of war. Hence normal economic relations with other nations and the normal development of national social and economic life are destroyed. It is a fallacy to argue that financially a nation cannot afford a vast rearmament programme because as long as it maintains a balance of payments adequate to finance essential imports, and as long as the government maintains complete command of the productive resources of the country, the process of forced saving can be inflicted on the community and the question of cost does not arise in a financial sense. A limit is imposed only by the social resistance of the community to an indefinite lowering of the standard of life. But if, on the short view, such a system is possible, it has very great dangers. Competition for resources causing a rise in world prices can completely upset import calculations. The internal pressure upon individual liberty and upon the standard of living cannot be maintained indefinitely or pushed beyond a certain point. When it is considered that some States are spending a fourth or a fifth of their national incomes directly or indirectly on "investment" for armament purposes it can be realised how near to the danger limit the world has approached. The economics of war introduce a new phase in world economics and their failure would probably mean the complete collapse of the regimes advocating them. The effects of such a collapse are incalculable, but the knowledge that a collapse cannot be risked must exercise a strong influence upon the minds of those responsible for these regimes and we cannot tell what desperate outlet they might not resort to in order to save themselves.

The economics of war are forcing us to use our prosperity for the wrong ends and to mortgage, if not to jeopardise, our future. Even if there is no choice for the moment, should not we take care to ascertain whether the principles underlying present economic policy are calculated to remove friction in the future? Unfortunately, there is too tardy

an appreciation of the significance of events and overmuch hesitation in following out the implications. The world has too recently suffered the horrors of prolonged deflation to be able to face it again. But if competitive rearmament is allowed to proceed unchecked and economic co-operation is not re-established, there is a danger that inflation will follow, to be followed in turn by another inevitable collapse. But in the meantime, the revival of activity has created conditions which make possible definite moves of a constructive nature. The recent move of the Oslo Powers may be interpreted in this light and even more significant is the growing tendency towards economic co-operation in the Danubian countries. These symptoms indicate a healthy determination by the smaller nations to take an active part in rebuilding the world economy. It remains for the leading Powers to lend their active support, and no nations are more capable of doing this than Great Britain and the United States. We must be prepared to ask ourselves whether Great Britain can again afford to refuse recognition to the desire of the smaller nations for more particular economic co-operation among countries linked by geographical or economic ties. Above all, the need for clear and rapid thinking, and for the accurate perception and formulation of the inter-action of politics and economics is now imperative to the larger nations, but in particular for Great Britain and the United States. Whatever the misunderstandings of the past, similarity of ideals and the exigencies of the present inevitably compel these two countries to draw closer together. If, as seems desirable, peace is to be preserved, the nations bent on war economy must gradually be wooed from their present course, then world prosperity can only be achieved by welding the remainder into an economic whole; and this requires the joint efforts of Great Britain and the United States.

Opportunities of World Economic Co-operation

Within the last few months, there has been a perceptible and refreshing trend of public opinion in this direction. After years of economic nationalism, opinion is hardening in favour of seeking a solution through the renewal of international co-operation. The Currency Agreement of September 1936, the discussions of the Oslo Powers, the activity of the Danubian States, the feelers which have been put out from time to time by France and the United States, and the increasing emphasis which has been placed of late by Dominion Statesmen on the need for a wider outlook—all these are symptomatic of a change of heart.

In the light of these considerations, the mission which is being undertaken by M. Van Zeeland, in his search for constructive opportunities, contains promise of really fruitful results, provided that it is not regarded as a means of postponing decisions and avoiding the facing of facts by those who should do so. At present there is little indication of the methods to be employed or the range of contacts to be made. This may be unfortunate, because if a real revival of economic activity is to be achieved, full consultation and co-operation with those engaged in such activity must be secured at the outset. Evidence is growing that many traders anxious to trade are prepared to examine critically principles and methods are no longer content with pious hopes. One of the outstanding advantages of democratic government is that it can enlist the criticism and co-operation of all the varied elements in a country, and in times like the present, such an advantage should be fully exploited.

I. THE APPROACH TO THE PROBLEM OF TRADE EXPANSION

Summary

(i) Traditional theories concerning international trade were built up to some extent on foundations which never really existed, or which have since disappeared. In particular, it is possible to exaggerate the historical significance of the contribution of free trade principles to the expansion of trade in the nineteenth century.

(ii) The fundamental economic function of international trade is to enable consumers to take full advantage of the existing specialisation of economic activities. The fundamental objective of national commercial policy should be to make use of international trade to maximise national consumption and raise the standard of living of the people. Hence, exporting is not an end in itself, but a means to the end of acquiring a lien on the productive activities of other countries for the greater satisfaction of consumers' demand.

(iii) The degree to which the benefits of international specialisation can be made available to consumers in practice depends upon the modifying influence of overriding factors of a political or social origin. These have increased in importance in recent years.

(iv) The extent of international specialisation itself is dependent at any time upon technical and economic factors which are always changing. Nineteenth century trade expansion was built on an economy of coal and iron and in conditions where the rapid increase of industrial population in Europe required increasing supplies of cheap foodstuffs from overseas. Population changes are now tending to alter the character and balance of consumption and at the same time international specialisation in industry has become less obvious with the greater dispersion of supplies of power, raw materials, and industrial skill.

(v) The United Kingdom's ability to purchase a large volume of imports is dependent not only upon British exports of merchandise, but also upon the invisible exports represented by shipping and financial services. Net invisible exports amounted to £200 millions in 1929, or more than a quarter of the value of merchandise exports. They fell to £105 millions in 1933, and had recovered only to £135 millions in 1936. The income from invisible exports is dependent upon the volume of world trade as a whole since the services provided by London are international in scope.

(vi) If the national objective of commercial policy should be to maximise national consumption with the assistance of import and export trade, due regard must be paid to the quality as well as the quantity of trade. The standard of living can be maximised by achieving the maximum volume of consumption of imported goods

with the minimum expenditure of resources upon the production of export goods in exchange, that is by maintaining the "terms of trade" in a favourable position. The "terms of trade" are widely affected by cyclical movements which are beyond national control, such as the change in the balance between prices of raw commodities (mainly imported) and prices of manufactured articles (mainly exported). But they are capable of being affected by technical changes in the composition of import and export trade. It should be the object of national policy to maintain the "terms of trade" by encouraging a continuous transition in British export industries from the manufacture of low-priced staple lines to the manufacture of higher-priced specialised goods. Hence, it is particularly important to encourage the newer industries to develop export markets before they are forestalled by competitors. Attention to the improvement of the "terms of trade" on the technical side is particularly important at the present time, since the depreciation of sterling in 1931 had some adverse effects. It is improbable that the depreciation of sterling could again be repeated in such favourable circumstances to this country as existed then.

(vii) In the long period, the current items in the balance of payments of a country must be made to balance. It is, however, often held desirable that they should show a surplus in the short period for the purpose of building up investments abroad. But it should be realised that the only economic justification for foreign investment lies in the fact that it represents the building up of reserves of postponed consumption to be utilised at a later date. Unless foreign investment is undertaken with the conscious object of increasing national consumption of imported goods and services at a later date by an amount at least equal to the service on the sum invested, foreign investment will merely lead eventually to a disequilibrium fatal to international commercial and financial stability.

(viii) The rigid adjustment of the balance of payments as between two countries on a bilateral basis must be abhorred. Much of the trade of the world is conducted on a triangular or multilateral basis which depends on the existence of an export surplus of goods and services in one quarter and an import surplus in another. This certainly applies with particular force to the trade of the United Kingdom and of the British Commonwealth as a whole. Hence, attempts to adjust bilateral trade on a strictly reciprocal basis tend to restrict opportunities of multilateral trading, and therefore to reduce the volume of world trade as a whole. And owing to the importance of various invisible exports, the position of the British balance of payments is vitally dependent upon a large and flourishing world trade.

International Trade in the Past

Much has been written by economists and others on the theory of international trade; which it is not the purpose of this report to discuss. We are more concerned here with the practical problem of analysing recent trends with a view to discovering how, under contemporary conditions, a larger volume of international trade can be achieved in the light of modern economic developments. But in seeking this object, we are implicitly accepting the assumption that a large volume, or at any rate a larger volume than at

present, of international trade is beneficial to the world in general and to the United Kingdom in particular. This view is not universally accepted, so that before plunging into the practical aspects of the problem it is advisable to analyse briefly some of the more theoretical conceptions of the significance of international trade in relation to other forms of economic activity and to the national income. It is also of some importance to realise that traditional concepts of international trade were built up on economic foundations which are changing, if they have not already irrevocably changed. For this reason, it is important that fundamental considerations should be distinguished from less fundamental variations on the main theme, which have been added from time to time as the result of ephemeral or imaginary conditions.

There is a general tendency to exaggerate the historical significance of the contribution of free trading to the great expansion of world trade in the nineteenth century, which has left its mark upon the general body of economic theory. In fact, the growth of trade in the nineteenth century was faced at times by obstacles which were not very much smaller or less apparently insuperable than those existing to-day. Yet between 1855 and 1900, British import trade increased in value from £143 millions annually to £523 millions and exports increased from £96 millions to £283 millions. The increase in imports was not due only to an increase in the imports of raw materials and foodstuffs. There was, even at this time, an increasing trade with Europe and the United States in non-competitive manufactures, as is shown by the increase in the value of British imports of partly and wholly manufactured goods from £22 millions in 1855 to £145 millions in 1900.

Export expansion was proportionately greatest in the trade with British possessions, but in quantity the expansion of exports to foreign countries was more important. Exports to British possessions rose in value from £19½ millions in 1850 to £93½ millions in 1900; exports to foreign countries rose from £52 to £189 millions. At the same time, a large proportion of British export trade throughout this period was conducted with countries that could hardly be described as free-trading. In point of fact, 56 per cent of British exports in 1850 went to protectionist countries in Europe, and though this percentage fell fairly steadily, it remained as high as 45 per cent in 1900. The importance of this group may be slightly exaggerated since it is necessary to include in it Belgium and Holland, which were not themselves highly protectionist, but conducted a large transit trade with Germany. These figures have been briefly cited in order to show that the background of British trade expansion was not exactly what it is sometimes supposed to have been. The peak period of free trade was comparatively short-lived, but it has exercised a rather disproportionate influence upon the imaginations of some economic historians. Before deductions can be drawn from past history as a guide for future behaviour, it is necessary that the past should be viewed in the proper perspective, and that fundamental considerations should be disentangled from irrelevant detail.

The Functions of International Trade

The fundamental justification for trade between countries, as for trade between different parts of the same country, is to enable consumers to take full advantage of the specialisation of economic activities, in so far as this is compatible with political, social and other extra-economic factors. The fundamental objective of national commercial policy should be to maximise consumption and to raise

the standard of living of the people to as high a level as possible, taking into account the demands of national defence and the prevention of instability by over-specialisation. There is a widespread fallacy that exporting is an end in itself and not merely a means to an end. The function of export trade, whether of goods or services, is twofold. In the first place, its function is to enable the exporting country to establish claims on the rest of the world whereby imports may be purchased, whether immediately or at a later date, and the standard of living raised by the maximisation and diversification of domestic consumption. In the second place, exporting serves the incidental purpose of increasing the turnover of individual manufacturers and thereby reducing average costs, which again tends to maximise domestic consumption. But, from the national point of view, the fundamental virtue of export trade is that it enables imports to be purchased.

International Specialisation

Prior to 1914, and even prior to 1929, international specialisation was being developed in a high degree, though since about 1890 specialisation between nations has become less obvious in character. That is to say, instead of the broad specialisation between agriculture and industry which was typical of most of the nineteenth century, the later tendency has been towards specialisation among industrial nations as well. The enormous growth of British manufacturing industry in the nineteenth century was facilitated by, and itself facilitated, the rapid growth of specialised agriculture overseas which enabled this country to divert its main energies from the primary occupation of feeding itself to other activities based mainly upon its then exceptional resources of coal and iron. The lengths to which international specialisation can be pushed at any time, with any given distribution of economic resources, depend in practice upon the degree to which it is thought that it can be safely allowed to develop. During most of the nineteenth century the extent to which political expediency interfered with the economic optimum of international specialisation was small; at the present time it is large and probably growing in importance. But at all times it must be remembered that economic factors alone cannot be expected to prevail in determining commercial policy, though they may be more dominant in one period than another. Throughout the greater part of this report, political factors have only been referred to incidentally, but in order that purely economic considerations may be related to national foreign policy, a concluding chapter has been added which attempts to evaluate shortly the present and potential influence of the principal political factors.

While political and social expediency must at any time determine the degree to which national specialisation can be pushed on economic grounds alone, it must be remembered that the economic factors making international specialisation possible are themselves capable of radical change from time to time. And it can hardly be denied that they have changed radically in the last twenty years in the direction of lessening its scope. The growth of British foreign trade in the nineteenth century was associated in part with the development of new territories overseas. These were developed largely with British money and by British initiative and with the aid of British exports of capital goods, such as railway equipment, which contributed directly to the increase in overseas production of foodstuffs and raw materials. These in turn were shipped back to meet the growing demands of a rapidly increasing industrial population, while the development of new and on the whole prosperous countries overseas facilitated the export from the United

Kingdom of simple consumption goods, such as cotton textiles, in which this country had a virtual manufacturing monopoly. There was, of course, at the same time a considerable growth in the interchange of largely non-competitive manufactures with the Continent which continued to form a large part of British trade up to 1931, though it has since been affected seriously by the growth of tariffs both in this country and abroad.

Changes in the World Economic Structure

The international trade of the nineteenth century and of the pre-war era was largely built up on an economy of coal and iron. At the same time, while a rapid increase of the industrial population of Great Britain was creating an ever-increasing demand for foodstuffs, increasing populations overseas were needing all types of manufactured goods. Since the war, underlying conditions have changed. The economic frontiers have ceased to expand at the old rate. The increase in population has slowed down in many countries, and the rise in the standard of living has reached the point where new types of demand have been created. Moreover, with the growth of power production and internal economic development abroad, the essential resources of modern industry are more equally distributed.

These factors have already been important, but they are of so much greater potential importance in the future that it is worth while to examine them in greater detail. In Great Britain and most of Western Europe, the growth of population has slowed down almost to a standstill and the point is even in sight where a decline may be anticipated. One of the factors which led to an automatic growth in demand during the last century—and provided a more or less automatic antidote to periodic slumps—has thus lost much of its force in many parts of the world, with the exceptions of Eastern and Southern Europe, Soviet Russia and the Far East. Among the industrial populations of Western Europe, and certainly in Great Britain, although the existence of widespread malnutrition points to the social necessity for increased consumption of high quality (and usually highly perishable) foodstuffs, improvements in the standard of living are leading less to an increase in the consumption of bulky foodstuffs and more to an increase in the demand for light manufactured goods and luxury articles, and for services. Many of these must, by their nature, often be of domestic origin. Generally speaking, similar tendencies in consumption are to be observed in overseas countries. At the same time, the development of raw material resources in many parts of the world has made possible a much wider international distribution of industries than was possible in the nineteenth century, while the growth of the use of oil fuel and hydro-electric power has lessened the dependence of industry and transport on coal. The growth in the proportionate importance of light industry has in fact tended to lessen generally the dependence of manufacturing industry upon indigenous raw material resources. At the same time the growth of mechanisation in industry has lessened the dependence of industry upon abundant supplies of human skill, and the ease of modern communication has facilitated the spread of higher technical education and ability to assimilate and adopt the latest technical additions to manufacturing processes. These factors represent a logical evolution from the economic conditions of the last century and have come to stay. They have, it is true, been greatly and in some cases excessively stimulated by the demands of what is considered politically expedient, but for all that they are in general based on fundamental economic changes.

It does not necessarily follow from these changes that the total volume of international trade must fall, though it may well be reduced in importance proportionately to the volume of internal trade. But the background of international trade in the future will be very different from the past, and ideas, methods and mechanisms may also need to be altered.

The Dependence of the United Kingdom on World Trade

In view of the approaching stability of the population and the possible decline in the proportionate demand for essentially imported commodities, it might seem less vitally important that the United Kingdom should still seek to provide for a large and increasing volume of imports by a large and increasing volume of exports, or by building up British investments abroad. This is, at best, a half-truth. The transition will, in any case, be slow, and if it were to take place without dislocation it would require a much more rapid re-allocation of resources as between industries producing for export and those producing for home consumption than is at present happening. But it must be realised that this country's interest in a large volume of international trade does not by any means begin and end with the industries which manufacture for export.

As the world's chief purveyor of commercial and financial services, the position of the United Kingdom has never been seriously disputed, though it has, in fact, declined since the War. The financial services which have made London an international centre—merchant banking, insurance, and the mercantile marine—are dependent upon a far wider range of trade than that which merely touches the United Kingdom as an importer or an exporter. The United Kingdom has, therefore, a vital interest in ensuring that the volume of world trade, and not merely the volume of British trade, should be large.

The extent to which invisible exports have contributed and are now contributing to British income from foreign sources is shown by the Board of Trade's annual estimates of some of the current items in the balance of payments:

£ Millions

	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936
Balance of Merchandise Trade	−392	−463	−387	−352	−381	−386	−408	−287	−263	−294	−260	−347
Balance of Government Transactions .	−11	+4	+1	+15	+24	+19	+14	−24	−2	+7	−2	−2
Net Shipping Income .	+124	+120	+140	+130	+130	+105	+80	+70	+65	+70	+75	+95
Income from Overseas Investment .	+250	+250	+250	+250	+250	+220	+170	+150	+150	+170	+180	+195
Short Term Interest and Commissions .	+60	+60	+63	+65	+65	+55	+30	+25	+30	+30	+30	+30
Other Items .	+15	+15	+15	+15	+15	+15	+10	+15	+10	+10	+10	+10
Balance of Current Items .	+46	−4	+82	+123	+103	+28	−104	−51	—	−7	+33	−19

Shipping services, short-term interest and commissions and "other items" accounted in 1929 for a net income of £210 millions—equivalent to no less than 28.8 per cent of the value of merchandise exports. At its lowest point (in 1933) net income from these invisible items fell to £105 millions—28.5 per cent of merchandise exports—but by 1936 a recovery had taken place to £135 millions, equivalent to 30.6 per cent of the value of visible exports. Although these invisible sources of income did not decline quite so severely as the value of merchandise exports, they did fall at one period to only 50 per cent of the 1929 level, and still only stand at 64 per cent of the level reached in that year.

Improving the Quality of Trade

If the national objective of commercial policy should be to maximise national consumption with the assistance of import and export trade, it is important that due regard should be paid to the quality as well as to the quantity of external trade. In other words, attention should be directed from time to time on movements in the "terms of trade." In the long run, the broad objective of British commercial and industrial development should be the increase of all commercial and industrial skill, not only in the United Kingdom, but in all countries. This is the only sure way of attaining and maintaining a higher standard of living. In the short run, however, it is only possible to test the progress of the United Kingdom in this direction relatively—that is to say, by comparison with that of other countries—and the formula for testing it is that of the "terms of trade." One way of increasing the standard of living inside a country is to achieve the maximum volume of consumption of imported goods with the minimum expenditure of domestic resources upon the production of exports goods. A country which succeeds in doing this is said to be improving its "terms of trade." It is, of course, axiomatic that all countries cannot improve their "terms of trade" simultaneously. This is a somewhat abstract conception, which is virtually incapable of accurate statistical measurement, but it helps to estimate the approximate trend and will serve as a useful measure of progress.

Movements in the "terms of trade" of a country may occur on the one hand as the result of wide, and usually cyclical, fluctuations in the relation of import and export prices without any change in the physical composition of import and export trade. Thus, the effect of a slump, such as that from which the world has recently suffered, in reducing the prices of raw commodities even more severely than the price of manufactured goods, is to improve the "terms of trade" of a country like the United Kingdom which is mainly an exporter of manufactures and an importer of raw commodities, at the expense of the "terms of trade" of countries which are predominantly exporters of raw commodities and importers of manufactures. An improvement in the "terms of trade" arising from cyclical fluctuations of this kind is likely to be only temporary and may be accompanied by serious indirect disadvantages, as has in fact occurred in recent years.

But changes in the "terms of trade" can also be brought about by other more fundamental factors of a technical nature. They can, in other words, be influenced by changes in the composition of import and export trade, irrespective of changes in the relation of import and export prices. Much of the failure of this country to maintain the level of its export trade in manufactured goods is due to the fact that it has leaned too heavily and

too long on industries which were once supreme in export markets and whose supremacy has been undermined by the rise of similar industries in other countries in many ways better placed for the production of these goods. The decline of the Lancashire cotton industry's exports of low-priced cotton textiles is a case in point. Any attempt to maintain markets in these qualities as a permanent feature of the trade must face the competition of countries such as Japan, which enjoy advantages in the manufacture of these types of textiles which Lancashire could not achieve without a catastrophic lowering of the standard of living. National policy demands rather that a transition should be made to newer and more specialised types of goods, in which skill and technical efficiency count for more, and the availability of supplies of labour with a low standard of living, judged by British requirements, counts for less. The same argument applies, in varying degrees, to all British export industries. If the standard of living in the export industries is to be maintained at a level which is generally above that of most other countries, it is essential that the "terms of trade" should be maintained, in the face of the increasing industrial skill of other countries, by a continuous transition in British manufacturing industries away from the staple lines in which our supremacy is threatened to newer and more specialised products. It may be said that this is a matter which national policy is less capable of determining than the inventiveness and initiative of British manufacturers. It is, however, important that the national interest from this point of view should be fully appreciated by industry itself, and in the long period the national interest and the interests of individual industries are not divergent.

The Importance of Cultivating Export Markets

In one respect, however, national policy can be of some assistance. The transition from staple lines to more specialised goods does not take place merely within each industry but within industry as a whole and may lead to the rise in the proportionate importance of one industry and the decline in another. This is a factor in economic development which is apparent to everybody, but which in its relation to national foreign trade policy is less obvious. The new and rising industries generally develop on the basis of home market activity and in their early stages are too busy in seeking increased outlets at home to have any need to look for outlets overseas for the purpose of increasing their profits. From the point of view of the individual manufacturer and of organised labour, this attitude is understandable, though, generally speaking, it is contrary to their own long period interests and to the national interest. If export activity, and therefore ability to import freely, is to be maintained over a long period of years, it is important that the newer industries should be encouraged to take over an increasing share of the responsibility for maintaining the level of export trade which has rested hitherto on the so-called staple export industries. If the newer industries concentrate over much on the home market because the immediate prospects of profit are more favourable there, they may find, when they are eventually compelled to look to export markets to provide them with increased turnover, that they have been forestalled.

In examining the practical aspects of this problem, we have found that the present mechanism of export trade may be largely responsible for this state of affairs, which is dangerous alike to the national interest and to the ultimate prospects of the individual manufacturer. In a later chapter some detailed consideration is given to this question.

Attention to these technical aspects of the "terms of trade" is the more urgently necessary in view of the other factors which have intervened in recent years. Generally speaking, currency depreciation is apt to alter the terms of trade unfavourably to the country which allows the external value of its currency to fall, since it tends to lead to an all-round increase in import prices and a less than proportionate increase in export prices. The unfavourable trend in the "terms of trade" and the unfavourable effect upon the standard of living may, it is true, be compensated from the national point of view by the effects of depreciation in stimulating increased employment. The United Kingdom was fortunate, in 1931, in not suffering appreciably, if at all, from the combination of these consequences of depreciation, owing to the importance of the British market as a buyer to a world plunged in depression. Instead of a rise in British import prices, other countries were, generally speaking, forced either to accept a fall in their export prices of goods shipped to the United Kingdom or to lose a valuable market to competitors who were prepared to do so. It is in the highest degree improbable that the favourable circumstances of September 1931 could be repeated in the event of a further depreciation of sterling and that the United Kingdom could always rely in that event upon the existence of a buyers' rather than a sellers' market for her principal imports. In view of these factors, the reluctance to depreciate their currencies on the part of some other countries, which are highly dependent on imported goods and are at the same time less important consumers of the world's goods than is the United Kingdom, can be more readily appreciated. Even in the United Kingdom the depreciation of sterling in 1931 did tend to affect the "terms of trade" adversely, although the full effects were prevented from appearing by other factors. It seems important, therefore, that particular attention should be paid to the technical aspects of the "terms of trade" at the present time. The recent rising tendency of British import prices consequent upon the rise of commodity prices has made the need for such consideration even more urgent.

The Importance of Multilateral Trade

Something has already been said of the relation of merchandise trade to the total balance of income and outgoings on current account in the balance of payments. In the long period, the current items in the balance of payments must balance. It may be, in the short period, that the current items show a net surplus of visible and invisible exports, and it is often held desirable that some surplus of this sort should be earned in order to provide funds for investment abroad. But it should be remembered that the only value from the national point of view of investing abroad lies in the fact that foreign investment represents the building up of reserves of postponed consumption to be utilised at a later date. Unless investment abroad is made with the conscious object of increasing national consumption of imported goods at a later date by an amount at least equal to the service on the sum loaned, conditions will be created which will lead eventually to a disequilibrium fatal to international, commercial and financial stability and progress. It should be unnecessary to add—though in the light of popular doctrines it is prudent to do so—that while it is desirable that the current items in the balance of payments of the country should show a balance in the long period, there is no necessity that the balance of payments, and still less the balance of merchandise trade, between this country and any one other country should balance either in the long or in the short period. Much of the trade of the world is conducted

on a triangular or multilateral basis, and this certainly applies with particular force to the trade of the British Empire. The fact that the United Kingdom imports more merchandise from, say, Czechoslovakia than she exports to Czechoslovakia does not mean that sterling is being paid out which is not eventually used in the purchase of British goods and services. Some of the surplus payment of sterling to Czech exporters may be used directly in the purchase of British invisible exports which do not appear in the merchandise trade returns. The rest may be sold to importers in other countries which require sterling because they are net importers of British goods and services. Multilateral trade of this kind, of course, is particularly dependent on the existence of free international exchanges. But attempts to bilateralise international trade, whether on the basis of trade in merchandise alone or of trade in both goods and services, also have the unfortunate effect of restricting opportunities of multilateral trade, and therefore of reducing the volume of trade as a whole. It should, therefore, be remembered that bilateral trade agreements which, in themselves, appear to represent satisfactory bargains for the United Kingdom in the first instance, may often have unfortunate indirect repercussions on that part of British merchandise trade which is conducted on a multilateral basis and may react further to the disadvantage of invisible exports, which constitute a very important proportion of total income from abroad, and are dependent upon the volume of trade in general. Owing to these indirect repercussions on ability to trade on a multilateral basis, bilateral agreements which are in the first instance designed to help trade may, therefore, often have the effect of encouraging indirectly those very restrictions which are regarded with such anxiety.

II. RECENT TRENDS IN INTERNATIONAL TRADE

Summary

(i) World trade declined by 25 per cent in volume between 1929 and 1932, and in spite of some recovery stood in 1936 at about 86 per cent of the volume of 1929.

(ii) The decline has been greatest in the case of manufactured goods. Trade in raw materials has been relatively well maintained, as has trade in investment goods compared with trade in consumption goods.

(iii) The decline and the subsequent lack of recovery of world trade have not been due to a parallel tendency in world production. In contrast to the experience of former depressions, world trade has not led the improvement, but has lagged behind the progress of production.

(iv) The factors summarised in (ii) and (iii) above are ascribable to the rise in economic nationalism, or the progress of internal economic development which has been the keynote of the economic history of the last five years. This movement, despite a host of absurdities, arises from fundamental economic and technical changes of an evolutionary kind in factors affecting the international localisation of industry, and is essentially a permanent tendency. It has been hampered and distorted by the inadequacy of internal working capital in the developing countries and the impossibility in the conditions of the last five years of obtaining financial assistance from outside. Hence the restriction of imports and exchange dealings, although aggravated by the more extreme forms of nationalism based on reasons of prestige, arises in part from the necessity of satisfying the prior claims of internal economic development for capital equipment and essential raw materials, and not only from the complications introduced by over-valued currencies and heavy debt burdens contracted before the slump.

(v) The growth of bilateralism in international trade and of economic groups are in part the results of the difficulties outlined in (iv) and represent attempts to secure essential supplies with the minimum outlay in free foreign exchange, and to preserve the power to import freely by forcing or safeguarding outlets for exports.

(vi) "Crisis measures," though originally imposed for definite purposes which may now have passed, have become to a large extent assimilated in the economic structures of the countries imposing them and cannot therefore be easily removed. At the same time, the growth of State control of internal trade has necessitated increased State control of foreign trade. This increased State control of external trade has come to stay, even though it must in course of time be subject to the

rationalisation which it urgently needs in order to perform efficiently the functions for which it is intended.

(vii) This process has been pushed furthest in Germany, though Germany merely represents in an advanced state a condition of affairs which exists widely elsewhere.

(viii) The British Empire must share in the responsibility for increasing the impediments to world trade since 1931. The depreciation of sterling, the British tariff and the Ottawa Agreements were in a large degree an inevitable and successful attempt to correct a balance of forces which had been tilted against the United Kingdom since 1925, but they succeeded rather by diverting existing trade than by finding new trade outlets. Although these policies met the essential need of self-preservation then, they are not necessarily the right policies for the changed conditions of the present time.

(ix) Both the United Kingdom and the British Dominions and Colonies are highly dependent on trade with the outside world. The British Empire is a producer of primary products in excess of her capacity to consume them, and this excess is increased if account is taken also of the countries, such as Argentina and Denmark, which are linked to the Ottawa system by agreements with the United Kingdom. In spite of the unsatisfactory present standards of consumption, the prospect of a large expansion in the future demand of the United Kingdom for Dominion foodstuffs is not very good in view of the tendency towards a stationary or declining population. The white population of the rest of the Empire is small, while the standard of living of its vast coloured population is relatively low, so that the prospects of largely increased consumption by British countries overseas of their own produce or of British manufactures are also not good. In these circumstances, it is to foreign countries, and particularly to the industrialised parts of Continental Europe, that the primary producers of the Empire must look, if they are to increase their production to the extent necessary for the attainment of full prosperity.

(x) This objective can only be reached by a new technique, in view of permanent changes in the economic background of international trade.

(xi) The British Commonwealth, and the United Kingdom in particular, has a vital interest in a large and flourishing world trade; the prosperity of world trade in turn depends upon raising the world standard of living. It will therefore repay British interests to assist the internal development of foreign countries with the resources which are surplus to the requirements of the British Commonwealth.

(xii) Such a policy would also go far towards removing the economic pressure which is one of the most potent contributory factors towards war. In view of the failure, hitherto, of the currency agreement of September 1936 to produce any appreciable loosening of trade restrictions, a constructive lead by the United Kingdom, in conjunction with the other democratic powers, is now urgently necessary.

(xiii) As regards possible difficulties in finding concessions to offer to foreign countries without damaging internal interests, a relaxation of import restrictions is daily

becoming more necessary in order to prevent British internal recovery from getting out of hand and developing into a dangerous boom.

(xiv) The first step, in any case, should be the return to a policy of non-discrimination in the Crown Colonies. Discrimination is contrary to the consuming interests of the low-standard populations of these territories and to their general development, in view of the high dependence of their exports upon foreign markets. It is also contrary to the traditional conception of Imperial Trusteeship and of government essentially in the interests of the colonial peoples, which the United Kingdom has always held, and it lends force to the colonial aspirations of the so-called "Hungry Powers."

The Decline in World Trade

Between 1929 and 1932, the volume or quantum of goods entering into international trade declined by over 25 per cent. There was a small recovery in 1933 and a somewhat larger recovery in the three following years, although in 1936 the volume of world trade still remained 14 to 15 per cent below the level of 1929. At the same time, there was a continuous fall in the average price of goods entering into international trade up to 1933, whether measured in terms of gold currencies or sterling. In view of the depreciation of sterling from the last quarter of 1931, the fall in sterling prices was, it is true, much less severe than the fall in gold prices. Sterling prices began to recover in 1934, but gold prices continued to fall up to the end of 1935, though they increased once more in 1936.

In consequence of these price movements, the value of international trade, whether measured in gold or sterling, continued to fall until 1934. In that year, there was a further fall in the gold value of international trade, but, measured in sterling a sharp recovery set in and has continued ever since. In 1935 even the gold value of trade showed a slight expansion, since the further fall in gold prices was insufficient to offset the rise in quantum. In 1936, when gold prices and quantum moved upwards together, the gold value of trade showed a further substantial increase. The full figures of quantum, value and price movements for world trade in this period are given in the Appendix.*

World Trade in Raw Materials

When the movement in world trade over this period is examined for each of the chief commodity groups, it is apparent that the volume of raw materials and semi-manufactured products entering into international trade has recovered much more readily than the volume of foodstuffs or manufactured articles. The depression hit with the greatest severity the volume of trade in manufactured articles, which had declined by 42 per cent in 1932, as compared with 1929, but has enjoyed an appreciable recovery since 1933. The volume of foodstuffs in international trade continued to decline right down to 1934 and showed only a small recovery in 1935. This decline is, of course, symptomatic of the stimulation of domestic agriculture in almost every industrial country of Europe in recent years.

Since the fall in prices was much more severe in the case of foodstuffs, raw materials and semi-manufactured articles than it was in the case of finished goods, the decline in

* See Appendix I, Table 1.

the proportionate importance to world trade of trade in manufactured articles, is not so readily apparent when the value of trade is examined—and trade statistics are usually made available to the general public expressed in values only. Nevertheless, the proportion of world trade, as measured by gold value, represented by trade in manufactured articles, declined from 39.5 per cent in 1929 to 37.5 per cent in 1935, while the proportionate importance of raw materials and semi-manufactured products has increased from 35.5 per cent to 37.5 per cent, and foodstuffs have, on balance, remained constant.*

World Trade in Capital Goods

Parallel with the growth in the proportionate importance of trade in raw materials, there has, since 1932, been a notable increase in the importance of trade in capital goods in relation to trade in consumption goods. Taking a fairly large sample of world trade, it appears that the value of trade in capital goods (measured in gold) rose by 7.2 per cent between 1932 and 1935, while the value of trade in other goods fell on balance by 18.8 per cent, with the result that trade in capital goods represented 23.9 per cent of the total in 1935 as compared with 19.2 per cent in 1932.† Since cyclical fluctuations in trade activity as a whole are in the main the result of cyclical fluctuations in the demand for capital goods, it is not unreasonable that, in a period of rising trade and activity, trade in capital goods should show a greater expansion than trade in general. But the size of the increase in recent years is obviously not explicable by the factor of postponed replacement demand alone. It is in fact due, as the increase in the proportionate importance of trade in raw materials is due, to the movement in recent years in the direction of economic nationalism. The relative undervaluation of capital goods, arising from a variety of causes, has also played some part.

The Growth of Economic Nationalism

This movement in the direction of economic nationalism, which has affected every country in the world in some degree, is the dominant feature of international economic development since 1931, but it is only one of the new features which have combined to change the economic background against which world trade must be conducted to-day. If constructive suggestions are to be put forward for the conduct of international trade for the future, they should be based on an understanding of the changed economic background of the present. Many of its features appear to represent permanent changes, and for this reason, the bulk of this chapter has been devoted to an analysis of current developments.

The trend of world trade in recent years—a sharp decline followed by a limited recovery—has not been due to any parallel tendency in the course of world production. The outstanding feature of the recent recovery period of world production has been the lack of a parallel recovery in world trade—a phenomenon entirely different from previous periods of recovery from depression, in which world trade generally led the way. The present tendency is due to the fundamental fact that nations are consciously building up their economic structures and therefore concentrating on the development of their internal resources. The relative increase in the international trade in capital goods and

* See Appendix I, Table 2. † For complete figures for 1932, 1934 and 1935 see Appendix I, Table 3.

raw materials is symptomatic of this development. Although this tendency has been greatly exaggerated by other factors making for the restriction of foreign trade, in the shape of political instability and currency difficulties, the trend in the direction of internal economic development must be accepted as dominant, not only for the present, but at least in the near future as well, and the future technique of international trade must take account of it.

The pace and the success of this movement have been increased by the increased ingenuity of governments in devising methods of controlling trade. Up to the last decade, tariffs played the major part in protectionist policy. It is probably no exaggeration to say that at the present time they constitute one of the least effective and significant of the many impediments to international trade. It is true that tariffs have been increased and that they have appeared in many areas, such as the United Kingdom, where they were formerly of comparatively little importance. But they have played a minor part compared with the growth of quotas and exchange restrictions in curtailing the volume of international trade.

The Effects of the Depression on Internal Economic Development

The growth of trade and currency restrictions after 1930 was rapid and insidious. The chief milestones in the progress of the world depression and the breakdown of international trade are now well known, but it may be convenient to mention them shortly. The depression had already begun before 1930 with the general decline in agricultural and primary product prices—in some cases as early as 1927. The cause was in many cases technical—particularly the increased productivity of agriculture—and the effect was to throw into disequilibrium the balance of payments of a large number of predominantly primary producing countries. The disequilibrium was temporarily alleviated and partially concealed by international borrowing, but this was only a palliative in that the borrowing was not self-liquidating, since it was not accompanied by larger movements of goods from the borrower to the lender, and could therefore only continue to be effective as long as the lending continued, from year to year, on an increasing scale. At the same time, the fundamental economic position was cumulatively worsened, since the usual reaction of primary producers to falling prices—to ship more produce in an effort to maintain gross returns—was resisted by European importing countries in an effort to protect their own domestic producers, the fall in prices being thereby accelerated. When in 1929 American investors—the principal international lenders of the period—withdrew their support, the day of reckoning could no longer be postponed and retribution for years of inflationary financing compelled the imposition of increased restrictions on current trade, in order that the cost of maintaining a rigid debt structure incurred at a high rate of interest should not undermine irretrievably the basis of currencies. The strain imposed and the deterioration of confidence from a number of causes, however, set in motion the withdrawal of short-term funds which culminated in the fall of the pound in the autumn of 1931. In other countries, the attempt to defend exchange parities, which had ceased to be related to the real economic position of the currencies concerned, required, for purposes of self-protection, the imposition of currency and trade restrictions which were cumulative in effect. The stimulation of home agriculture, which was in origin older than the

depression and was founded on political and emotional, as well as economic factors, gathered strength with the increase of unemployment and the cessation of emigration. The result was the excessive development of a high-cost production both in industry and agriculture, which had no export outlets and only aggravated internal poverty.

In these circumstances, the effort to build up internal resources and internal industries which had already been an important factor, was intensified, but in surroundings particularly unsuited to programmes of capital construction of this sort in countries which had little or no savings. Great difficulties have been experienced, in the absence of free access to credit, such as existed before 1930, in obtaining from abroad the raw materials and capital equipment necessary to carry through these plans. In the countries which attempted to maintain the gold parities of their currencies, it is now a matter of history that the deflation of the internal cost structure which was the theoretical solution of their difficulties could not be put into practice and export trade in consequence continued to diminish. This factor combined with the public works policies which many countries adopted to mitigate unemployment, and the increased production of armaments in face of growing political uncertainty, added to the exchange stringency caused by the pressure of internal economic development. Accordingly, a fresh series of measures has, in course of time, come to be superimposed upon the previous restrictions to foreign trade, with a view either to stimulating exports or to obtaining imports of essential materials and equipment without having to call upon foreign exchange resources. Germany has been foremost in undertaking such developments and in elaborating the mechanism of control, but she stands by no means alone, except perhaps in the matter of degree. Many other countries have developed to some extent the same system of concealed or flexible currency depreciation, combined with the organisation of export subsidies and the canalisation of trade in bilateral channels by clearing agreements or other methods, with a view to economising free foreign exchange.

The Extension of Government Control

The internal developments which are outlined above, and the administration of the measures calculated to further them, have led to the building up of bureaucracy and increasing encroachment of government control over foreign trade. The volume and direction of foreign commercial transactions are coming increasingly to be guided by what is conceived as national policy rather than by consumers' tastes, as interpreted by individual importers and exporters, taking advantage of the existence of international specialisation in production and manufacture. Moreover, the extension of government control has not affected merchandise trade alone. It is inevitable when government control of imports is accompanied by, or implemented through, control in the allocation of foreign exchange, that the latter should in course of time extend to other transactions as well, since the provision of exchange to finance import trade is conditioned by the existence of other claims on the available foreign exchange and the degree of priority which is given to them. In this connection there has been a notable tendency towards the extension of compensation and clearing agreements, and other arrangements of a bilateral nature, into payments agreements which cover all the mutual financial transactions of the parties concerned.

This development has, incidentally, increased the tendency towards the bilateralisation of all transactions at the expense of multilateral trade and has affected world trade in essential services.

It should be emphasised that the extension of bureaucratic control over foreign trade does not appear to be merely the result of the multiplication of measures introduced mainly to combat the effects of depression. It is symptomatic of the much more fundamental movement towards planned internal development. In practice, it will usually be found that the institution of a wide measure of public (or any unified) control over various forms of internal economic activity will at some point, if it is to remain effective, require to be supplemented by control over the external relations of the economic groups concerned. This has been noticeable in the United Kingdom, for instance, in connection with the Agricultural Marketing Acts and the reorganisation of the steel industry.

It must, moreover, be realised that government control over foreign trade has, in many countries, been introduced not merely as an expedient in the face of widespread depression, but as a matter of permanent policy. Soviet Russia is not the only country which has adopted state trading, or some form of it, as a matter of principle. Newly developed countries, such as Turkey and Iran, have instituted an advanced form of state control over foreign trade. Even within the British Empire, New Zealand is now embarking upon a scheme of planned foreign trade through the medium of the government's control of foreign exchange, which, though it owes something to developments external to New Zealand cannot be described merely as an expedient designed to meet temporary conditions of depression.

The Background of Economic Nationalism

It is fashionable in the United Kingdom to decry economic nationalism in general as an evil and malignant growth, although it is practised here as well as elsewhere, if only on a different scale. At times, however, this general condemnation approximates merely to a desire to stop the clock at the point which it has now reached. The United Kingdom has in the past encouraged a high degree of international specialisation, which has ensured a supply of cheap food and raw materials and permitted the intensive use in industry of resources which would otherwise have been less economically employed for other purposes. This arrangement had, in the past, proved highly beneficial to the United Kingdom, and probably to the world as a whole in a somewhat smaller degree, though it has resulted in some primary producing countries becoming too highly specialised for their own stability in the production of one or two commodities. It would be somewhat naive to assume that we could stop progress at this point or prevent other countries from seeking a higher standard of living by the road that British methods have shown them. Much of the popular argument against increasing industrialisation abroad, which is characterised as economic nationalism, turns out on analysis to be not so much an argument for international specialisation in itself as for maintaining international specialisation at the stage which it has at present reached. The continuance of the process demands not so much that the present balance should be maintained as that the advanced manufacturing countries of the world should take advantage of the growth in skill of the less advanced countries, by progressively turning over to them more and more of the simpler manufacturing

processes and devoting their own resources to the newer and more intricate developments to which their own high standard of skill is particularly suited. It is our failure adequately to amortise industries which are in the course of time requiring less and less specialised knowledge that has made the growth of "economic nationalism" abroad such a disadvantage to us. At the same time, it is hardly legitimate to characterise the repetition abroad of a process which has already occurred in the United Kingdom as less economically sound merely because it is now happening elsewhere.

The growth of manufacturing industry in a great number of countries of the world is due to fundamental changes in the relative value of industrial resources. British industrial supremacy in the nineteenth century was built up largely on the basis of an advantageous position in respect of supplies of coal and iron and skilled labour. Under modern conditions, the development and diffusion of power resources have lessened the rigid localisation of industry on the basis of coal supplies. At the same time, mechanisation has widened the scope of industry based on cheap, rather than skilled labour. And the growing importance of light industry, due to changes in the balance of consumer demand, coupled with the cheapening of transport services, has lessened the importance of localisation on the basis of raw material supplies. In short, the spread of manufacturing industry in the last twenty years owes much to the fact that proximity to markets is becoming an increasingly strong factor in the location of industry, whether nationally or internationally.

It is not denied that the efforts of foreign countries to build up their internal economies have led to an extraordinary growth of abnormalities. That, however, is, at least in some part, due to the difficulties which such aspirations encounter in the vitally practical matter of acquiring the essential capital goods and raw materials in the present state of international economic relations. In order to obtain these supplies, exports have to be forced, or other imports curtailed. Working capital is lacking, and in the absence of financial help from outside the process of evolution is slow and painful. Nevertheless, surprising progress has been made, even if it has been lop-sided, and it would be more rapid given an increase in the international mobility of capital and goods. Current economic developments, while proving beneficial in general, may, however, increase the difficulties of certain groups of countries. The rise in the level of commodity prices in the last twelve months has, generally speaking, restored the equilibrium of the primary producing countries which bore the brunt of the depression. But this rise which is putting these countries on their feet, must increase the difficulties of those others which already find it hard to obtain adequate supplies of raw materials, in the absence of outside financial assistance. Ultimately, the progress of internal industrial development, in so far as it tends to lead to a rising standard of living, can hardly fail to benefit world trade as a whole, even though it may reduce permanently the *proportionate* importance of international to internal trade.

World Trade and Currency Stabilisation in Relation to Economic Nationalism

Since September 1936, the financial background of international trade has changed radically for the first time since 1931. As the greater part of the trading world has now overhauled its currency parities, and substituted policies of credit expansion for policies of deflation, it should be possible, in theory, to look forward to a greater degree of

exchange stability in future. This, again in theory, should make possible the demolition of those trade barriers which were erected purely for purposes of currency defence. In practice, it is more than doubtful how far this expectation will be realised in the light of changes in national economic policies since 1931. The restrictions on international trade which were introduced in the early years of the depression were introduced piecemeal and generally for a definite immediate object. But the connection between each individual measure and its original object has long since been forgotten. The series of expedients which were adopted then have grown into a system which is being used in support of national economic policies. It is impracticable to believe that any real distinction between "crisis measures" and more permanent measures is any longer possible and it would, therefore, be unrealistic to hold out much hope for a general sweeping away of trade barriers as a political possibility, even against the changed monetary background of the autumn of 1936. It is, of course, possible that the present chaotic mixture of expedients will in the course of time be subject to rationalisation. Too much stress can hardly be laid on the necessity for the unification of national economic policies, in order to replace the present attempts to deal with individual problems piecemeal by more coherent and comprehensive programmes. If only the various governments could be induced to regard their economic policies as a whole and to judge their previous piecemeal measures by reference to a comprehensive plan, existing measures of trade control could soon be made much more efficient for the purposes for which they are intended and less indiscriminately injurious. But for any general liberation of trade it will be necessary to look for a new or improved technique, suited to the changed background of the times.

World Economic Developments, 1931-36

Between September 1931 and September 1936 it was possible to distinguish three main groups of countries: (*a*) the gold bloc, which endeavoured to adhere to its former currency parities and to adjust by deflation its internal cost structure to the fall in prices in the outside world; (*b*) the restrictionist countries, nominally remaining attached to gold, but actually dependent upon rigid control of the exchanges and in some cases involving a concealed or discriminatory currency depreciation; and (*c*) the managed currency group including the United States, the United Kingdom, the British Dominions and Colonies, the Scandinavian countries, Portugal, China and Japan. Though the countries of the third group, which comprises more than half the trading world, have by no means abstained from quantitative regulation of trade and from increasing protection by means of tariffs, they have for the most part maintained free currencies and endeavoured to base their commercial policies on traditional methods of international trade organisation. They have, it is true, worked by means of bilateral treaties which have tended to be exclusive, although the United Kingdom and the Scandinavian countries have endeavoured to preserve the effectiveness of the most favoured nation clause, while the United States has, in the past two years, concluded a number of bilateral treaties under which concessions have been extended by the use of this clause to other countries. But owing to their adoption of expansionist monetary policies, they were not to any great extent driven to resort to trade restrictions by the pressure of currency difficulties.

The Growth of Bilateralism

It is in the first two of these groups that restrictionist forces have been seen most clearly at work, and the tendency towards the bilateralisation of trade has been greatest, although the former gold bloc, as has already been noticed, is now theoretically in the position of being able to abandon such measures as were adopted purely in defence of currencies. The tendency towards the bilateralisation of trade has not, however, been confined to the "restrictionist" group, though it has tended to arise from that source. Fundamentally, bilateralism has been due to the same factor which has lent additional strength to the movement in the direction of economic nationalism—the stress of self-protection in the face of shrinking trade and high debt burdens. Where supplies of free foreign exchange are limited, there is a natural desire to economise them as far as possible by arranging as much trade as possible on a basis which does not require net payments to be made in foreign currency. The increase of rigid bilateralism has, however, certainly contributed to the decline in the total volume of trade as it takes place at the expense of multilateral transactions which formerly made up a large proportion of the world's trade. The extent of this encroachment is not statistically measurable as a whole, but the qualitative evidence shows it to have been considerable.*

*The relation of trade that is financed bilaterally to trade that is financed multilaterally is sometimes calculated in the following manner. From the total value of world trade (imports plus exports) first subtract the aggregate of the import or export surpluses of all countries. These represent in each case an excess of receipts or payments for goods, which is met not by merchandise transactions but by payments or receipts on account of various invisible items of the balance of payments, such as interest, etc. Out of the remainder, the total amount of merchandise trade that is transacted on a bilateral basis may be arrived at by adding up for all countries together those parts of the export and import trade of each country with each other country which balance out. The residue of the total of world trade, since there is no obvious offsetting item, may be assumed to represent trade which is conducted on a multilateral basis.

To take a simple case of a single country only, suppose that country "X" trades only with countries "A" and "B" and in the following way:

	Exports	Imports	Total
Country "A" . .	£150 mns.	£300 mns.	£450 mns.
Country "B" . .	150	100	250
	300	400	700

With country "A," £300 millions of trade out of £450 millions is conducted on a bilateral basis, since £150 millions out of the £300 millions of imports from "A" are met by exports. In the case of trade with country "B," the amount which balances out is £200 millions, making a total amount of £500 millions conducted by bilateral means. The surplus of total imports, amounting to £100 millions, is presumably covered by receipts of interest and other invisible exports. The remainder of the total trade (£700 millions minus £500 millions minus £100 millions) must be financed on a multilateral basis, since there is no item offsetting it directly.

On this basis, the League of Nations Economic Intelligence Service has calculated that the importance of bilateral trade, taking a sample of twenty-two countries, covering 71 per cent of the world's trade in 1935, has increased as follows:

	1929	1931	1933	1934	1935
	%	%	%	%	%
Bilateral Merchandise Trade	71.7	68.1	71.3	71 9	74.2
Balance of Total Merchandise Trade . .	9.9	16.4	14.4	13.0	12 0
Triangular or Multilateral Merchandise Trade	18.4	15.5	14.3	15.1	13.8
TOTAL	100	100	100	100	100

This calculation has a number of limitations which are discussed in the League of Nations World Economic Survey for 1935/36. It is likely to underestimate the relative importance of multilateral trade.

The Formation of Economic Groups

The tendency towards the bilateralisation of trade has been increased by the formation of economic groups with the object of increasing as far as possible their mutual trade at the inevitable expense of their trade with the outside world. The depression has had the effect of increasing the exclusiveness of the arrangements in force within the various imperial groups—the British, French, Dutch and Portuguese Empires—of which the most notable example has been the increase in the internal trade of the British Empire. The implications of this are discussed in greater detail at the end of this chapter, but it may be indicated here that the proportion of world trade which is accounted for by the trade of the British Empire as importer or exporter, after declining from 27.9 per cent in 1929 to 27.5 per cent in 1932, rose to 29.2 per cent in 1934 and 30 per cent in 1935. The experience of the other two great colonial empires—the French and the Dutch—has been different: they increased their share of world trade between 1929 and 1932, but lost ground afterwards, largely no doubt owing to stagnation caused by currency difficulties. The trade of the three Empires together, however, covered 40.6 per cent of world trade in 1929, 42.8 per cent in 1932 and 43.4 per cent in 1935.* The increase is not large, but it must be remembered that during this period the proportion of the internal trade of these empires which is subject to preferential treatment has increased. France has traditionally pursued a policy of complete assimilation towards her colonies. The protection of trade within the British Empire has increased materially since 1932, while even in the Dutch Colonial Empire, where the open door policy has been most strongly upheld, some discrimination against foreign countries has been introduced in recent years. The increase in the share of world trade of the principal empires is sometimes cited as evidence of the advantage of the possession of "colonies" (often disregarding the fact that the British Empire is made up for the most part of self-governing units), but it should be remembered that the mutual trade of the British and Dutch Empires at any rate is not protected over more than a proportion of the total, while the dependence on trade with foreign countries in the case of most of their members is equal to or greater than their dependence on imperial trade. According to official calculations, intra-imperial trade represented 25.7 per cent of the total trade of the British Empire in 1929 and 1931, though it had risen to 30.4 per cent by 1935. The British Empire as a whole is, therefore, on the evidence of these figures, far more dependent on its trade with the outside world than on its mutual trade. In so far as the Empire is unable to produce all the goods that it requires to consume, or to consume all the goods that it is able to produce, there is obviously a limit to the extent to which the system of imperial preference can be pushed with advantage. This factor must be borne in mind in considering any attempt to extend the Ottawa system of imperial preference.

The tendency towards the formation and tightening of economic groups in recent years, through the instrument of exclusive bilateral treaties or similar measures, is by no means confined to the principal imperial groups which are in the position of being able to make use of political and racial ties for the purpose of preventing their foreign trade from feeling the full effects of trade depression. The last few years have seen the development of other groupings, which, although in most cases partial, have tended to be exclusive

* See also Appendix I, Table 6.

to countries outside the group. Great Britain has tended to draw within her economic sphere of influence the Scandinavian and Baltic countries as well as Argentina; Japan has practically assimilated Manchukuo and has extended her economic influence over North China in general; within the last two years Germany has sought to expand her trade with a number of countries in South-Eastern Europe, although this policy now seems to be suffering a reverse.

Other factors, arising primarily from internal problems, have exerted a major influence on world trade. In the first place, the United States, a creditor nation, has failed to behave economically as a creditor nation should, and still refuses to choose between the alternatives of surrendering part of her agricultural exports or permitting a greater freedom of imports in order to allow her debtors to transfer their obligations. America's high tariff policy which prevented debtors from paying in goods and services, was a major factor in bringing on the depression, since it rendered the position of America's debtors untenable. The subsequent devaluation of the dollar and the refusal to stabilise it (in which the responsibility was not only America's) was a major factor in the inactivity of world trade in 1932 to 1934. In addition, America must bear a grave share of the responsibility for the difficulties of China which were aggravated by the highly eccentric policy pursued by the United States towards silver. At the present time, the United States is exercising a much happier influence on world trade through the implementation of Mr. Cordell Hull's trade agreement policy.

Soviet Russia seems capable of playing an increasingly large part in world trade. The fact that foreign trade is largely a monopoly enables bulk contracts to be made and the direction of trade changed rapidly for political or semi-political reasons, which in turn gives Russia considerable power to impose terms and dictate prices. During the period of intense capital construction, Russia was a huge importer of capital equipment, and some raw materials, financed for the most part by short-term credits. As these fell due, it became necessary to force exports on world markets, even though they may have been urgently required at home, in order to provide means of payment. The dumping of large volumes of primary products, regardless of price, by Russia, increased the dislocation of markets. This influence has been removed as the capital construction programme has advanced and development has been turned more in the direction of internal trade. Russia's external trade to-day presents a much more balanced appearance; by raising the quality of her exports and, if necessary, restricting the volume, Russia can now sell at higher prices and can afford to choose the markets where she wishes to sell. In other words, she has exercised a less disturbing influence on world trade. Whether this is likely to continue is another matter; when the programme of internal development is more advanced, export markets may again receive greater attention. Already Russia is the only trading power that matters in Central Asian markets, she has formed close trading relations with Turkey, and is resuming the influence which Imperial Russia exercised in the Near East before 1914. In the meantime, Russia already probably has a positive balance of payments, and if increasing gold production is taken into account, may eventually become a creditor nation, although foreign short-term credit is still being used, some of which continues to come from Germany.

In the last five years, Japan has made her presence increasingly felt in world markets,

using a cleverly managed depreciation of her currency to assist export trade and establish a hold on foreign markets on the basis of a highly organised system of distribution. At the same time, the export drive has been accompanied by inflationary financing at home and intensive military preparations which are progressively weakening an already difficult budgetary situation. It may be that with her large dependence on imported raw materials, Japan will be less successful in export markets in a time of high commodity prices than she was in the depression and will be less able to make her lower labour costs felt. Exchange restrictions have, in any case, been tightened as from the beginning of 1937, admittedly as a temporary measure, according to official sources, although the reasons advanced are not completely convincing.

Japan's external commercial policy reflects the main factors of Japanese internal development. The rapid growth of population and the demands of rearmament and national development have called for a rising volume of imports. But the expansion of the export trade in order to provide the foreign exchange with which increased imports may be purchased, itself involves a large increase in imports owing to the dependence of Japan on outside sources of raw material supplies. This factor, combined with the low-price policy of Japanese export trade, has made it very difficult for Japan to secure the requisite volume of imports, over and above those required by the export trade, and the forcing of exports at low prices has consequently tended to defeat its own ends. Resistance on the part of other countries to the increasing influx of Japanese goods has forced Japan in many cases into a policy of strict reciprocity. Otherwise Japan has endeavoured to obtain closed markets for her goods—as in Manchuria and, with less success, in China. It would seem that Japan is beginning to learn by experience that the policy of intensive exporting at low prices has its disadvantages.

The South American countries have been among the worst hit by the fall in commodity prices though their equilibrium has now been restored for the most part by the rise in the price level of the last twelve months. Many of them have been particularly dependent on one or two commodities, such as Brazil on coffee, Bolivia on tin, Venezuela on oil, and Chile on copper and nitrate. The reaction from the consequences of this is stimulating efforts to achieve a greater diversification of activity and to build up secondary industries as far as circumstances will permit. As domestic capital has been inadequate, progress has necessarily been slow. Moreover, the South American republics are among the worst sufferers from excessive and unwise borrowing prior to 1930, and the existence since of a large burden of external debt contracted at high rates, combined with the fall in export prices, has necessitated drastic control of imports and of exchange allocations. Even so, it has not been possible to transfer more than a part of the interest due on past debts, though with the rise in the prices of some commodities the process of liquidation and reconstruction has begun and the South American countries are slowly putting themselves into a more creditworthy position.

The mutual trade of the South American republics is small, since at the present stage of development their economies are not in any large degree complementary, although special arrangements for fostering mutual trade do exist. There has been a greater tendency for certain South American countries to fall under the influence of other economic groups. Argentina has maintained a close contact with the sterling group

through the Roca-Runciman agreement with the United Kingdom, while Brazil and Chile, among others, have both been associated in clearing or barter agreements with Germany.

Moreover, the recent visit of President Roosevelt to South America marks a definite move towards the development of the Pan-American concept in the economic sphere, a development which is helped by its political aspects.

South America is commonly regarded as the foremost example of recent economic development, but, in fact, recent progress has probably been relatively more rapid in the Near East with the influx of capital into Palestine, the growth of national development and a national self-consciousness in Iraq, the increasing industrialisation of Turkey and Iran and the progress of industrialism and economic development in Egypt. But most Near-Eastern countries have not been so fortunate as Palestine in the matter of capital imports.

Central and Eastern European countries have also been affected mainly by the withdrawal of outside financial support in the absence of adequate working capital from internal sources, which has led to the setting up of currency control and strict control of imports. Capital development has in most cases been intensive and internal activity high, but it has taken place at the expense of the standard of living of the population since a large proportion of the national income has to be devoted to capital purposes. In so far as Eastern European countries are dependent upon exports of primary products, they should be assisted by recent price trends. Italy has suffered from much the same combination of tendencies as Central Europe, to which must be added the financial cost of Fascist Imperialism, and trade and exchange dealings are even more rigidly controlled. The formation of local economic groups has gone to some lengths on paper in Central and Eastern Europe, in the shape of the Italian-Austro-Hungarian agreement, the Little Entente bloc, and the Balkan bloc, although such arrangements have not hitherto often amounted to much in practice. Of late, however, there have been signs of a more real economic co-operation.

But probably the most radical change in economic policy and outlook has occurred in Germany. Since the control of internal and external trade and financial transactions has reached its most highly developed state there—though, as has been seen, it has not been insignificant elsewhere—it may be appropriate to enter upon a short analysis of the nature and effects of modern German economic policy as an illustration of what is happening on a smaller and less complete scale in many countries.

The Re-orientation of German Trade

At the beginning of the depression, the government of Dr. Brüning attempted a deflationary policy in order to produce the favourable balance of trade necessary to meet all Germany's external debt obligations. That attempt failed, and the failure was followed by the accession of other governments and finally of the present regime which brought with them an expansionist internal policy.

The Nazi Government has been working towards three main aims in the economic field—the reduction of unemployment, rearmament and economic self-sufficiency for the

needs of eventual war. It is interesting to see to what drastic extremes their logical prosecution has led, although it would be both unjust and misleading to forget either that the protection of the home producer, especially the agricultural producer, was in 1933 already an important feature in the German economy, or that exchange restrictions and an expansionist internal policy were introduced prior to the Nazi regime.

The methods employed to reduce unemployment other than the constitution of the Labour Corps and the exclusion of women from industry, were, and still are, public works and a vast armaments programme. It is well known also that both the operations of the Labour Corps and the public works schemes usually have a wide, if indirect, military importance. This programme was, and still is, based mainly on concealed internal borrowing, though tax revenue is rising with increased internal activity.

The Reichsmark, which it was already extremely difficult to maintain at gold parity, was soon in an even more precarious position on account of the rise in internal prices occasioned by inflationary expenditure and it became increasingly difficult to pay for all the imports necessary for social, industrial and—most important of all—military progress. Steps have therefore been taken by the regulation of internal prices, to prevent a further rise in the price structure. At the same time, an official devaluation of the mark, although likely to stimulate exports, would have had serious repercussions, first in the sphere of prestige, and also in increasing the cost, in marks, of imports. Efforts to economise in the supplies of foreign exchange led to the strict rationing of the "devisen" available among different classes of imports. Export trade, by which the "devisen" are obtained, is conducted as well as the circumstances permit. If orders cannot be obtained in open competition, mark subsidies are often available for the purpose of lowering the export price in foreign currencies. But this system has not, in itself, been sufficient to meet the difficulties of the situation owing to the continued shortage of foreign exchange. Germany therefore embarked on an attempt to buy only where she sold, in an effort to economise in the outlay of free "devisen." The development of this policy falls into two sections—one mainly in Europe, the other overseas.

In Europe, Germany already had a number of clearing agreements with Balkan countries, concluded in the first instance because of the arrears of commercial debts due to German nationals which had accumulated through the faulty working of the exchange controls of these countries. At a later stage, German purchases of raw materials began to be diverted to these countries when the operation of a clearing account made it possible to obtain goods without payment in foreign exchange, merely by the deposit of marks to the credit of the selling country in the clearing account. These funds could only be realised by purchases in Germany. In the clearing account, the mark was valued at gold parity, and this, combined with the difficulty of obtaining raw materials in free markets, led to the offer by Germany of prices which, calculated in Balkan currencies, were attractively high. An increasing proportion of Balkan exports was thereby diverted to Germany, which soon owed considerable sums on clearing account to Yugoslavia, Bulgaria, Roumania, Greece and Turkey. These countries in turn could only liquidate the sums standing to their credit by increased purchases from Germany. Germany has clearing agreements at gold parity with most European countries, but it is in the economically weak Balkan countries that it has been possible to push this policy furthest. The policy amounts in effect to the

acquisition of raw materials from these countries as a forced loan. For this reason, and in view of their growing ability, with economic recovery, to place their produce in free markets, Germany's partners in these agreements are becoming increasingly restless regarding their results.

Their resentment has, in fact, tended to increase since, when liquidating the balances to their credit, they have often been unable to choose the goods which they require, but are forced to take those goods which Germany wishes to offer them. And the prices at which they are offered, even though they are purchased from blocked balances, are often considerably higher than those prevailing elsewhere.

The agreement with the United Kingdom is in a special category since in this case the only exchange control is at the German end. The German authorities are under an obligation to provide for specified purposes exchange to the value of specified percentages of the exports to the United Kingdom. Both sides seem to be satisfied with the results of this agreement, which has resulted in the repayment of arrears of debt due to British creditors, in the payment in full of interest to British holders of Dawes and Young Loans, and in a steady British export trade to Germany. The agreement also leaves a certain surplus of sterling at the disposal of Germany which is, in practice, used to purchase in London raw materials of British or British Empire origin.

Outside Europe, German trade agreements have tended to be based rather on a system of barter or private compensation. Through banks, under official supervision, private firms arrange for the transaction of their trade by setting off deals one against the other. Given the official over-valuation of the mark, these deals have, of course, only been possible with the use of a mark quoted at a special discount. The types of mark and the rates of discount vary considerably for trade with different countries and in different commodities (Aski-marks, Verrechnungsmarks, etc.), and even between different deals. But generally, the percentage of discount seems to have varied between 20 per cent and 35 per cent, though exact figures are not available. Some of the most striking instances of the success of this policy have been in South America, China and in South Africa. In certain countries, such as Brazil, the result of these compensation deals has been to transfer an increasing share of the trade of the foreign country in question to Germany. In Palestine, where this system has led to a marked increase of German exports, political influences have been important since this was the only method open to Jewish refugees of realising their German capital.

Other methods used with the help of the German exchange control to finance exports to all countries have been the utilisation of the mark profit to be made on the purchase of German bonds held by foreigners and the use of a direct subsidy administered in close co-operation with the exchange control. In the former instance, the difference between the foreign and the German price of German bonds was, and still is, used to subsidise exports, the subsidy being realised through the sale, at a discount, of "special" marks. In the latter case, a turnover tax of 2 per cent or 3 per cent was imposed in 1935 and continued in 1936 on all industrial transactions, and the proceeds—variously estimated at 700 to 800 million marks, no official information being available—were devoted to the direct subsidisation of export trade.

It is clear that attempts to import at one rate of exchange and to export at another have only been attempts at the impossible. Buying at above world prices on clearing account and in barter deals, and a levy on internal industries have all been implicit admissions of the fall in the external value of the Reichsmark and of an increased cost of living in Germany. On the other hand, the realisation at a discount of blocked accounts in Germany of a financial origin by foreigners has been an implicit admission by creditors of a bad debt; and to that extent Germany has undoubtedly had some benefit in the short period.

The diversion of German trade caused by the developments mentioned above is startling. Prior to the depression, Germany was, generally speaking, a net exporter to European countries and a net importer from overseas. In both directions, Germany's balance of trade has moved towards equality as a result of recent policy. Imports from countries in Europe with which there are complete clearing agreements (i.e. excluding the United Kingdom) have increased from 40.8 per cent of total imports in the period 1927-29 to 49.6 per cent of total imports in 1935. Imports from all the countries with which there are no clearing agreements have fallen from 42.5 per cent of the total in 1927-29 to 31.9 per cent of the total in 1935. The results of this redistribution of trade have been:

(*a*) To reduce Germany's *favourable* balance of trade with European countries with which she has complete clearing agreements from an average of Rm. 1,450 millions in 1927-29 and Rm. 1,394 millions in 1932 to Rm. 399 millions in 1935.

(*b*) To reduce the *unfavourable* balance with overseas countries with which she has no clearing accounts from an average of Rm. 2,830 millions in 1927-29 and Rm. 849 millions in 1932 to Rm. 308 millions in 1935.

(*c*) To reduce the *unfavourable* balance (mainly through increased exports) with the limited group of overseas countries where trade is on a clearing or compensation basis from Rm. 664 millions in 1927-29 and Rm. 193 millions in 1932 to Rm. 161 millions in 1935.

Full figures for these years, and for the years 1932 to 1935, are given in an Appendix.*

Although German policy has been remarkably successful hitherto in meeting the exceptional requirements of the situation, it may be doubted whether it provides the foundation for a permanent system. It is significant that the discount on the various categories of blocked marks shows a continuous tendency to widen, which is indicative of a slow deterioration in the financial situation. The effort that is now being made to increase the domestic output of raw materials and substitutes, in so far as it is not entirely based on a war mentality, provides some evidence that this is appreciated. Nor have the various expedients adopted to secure an expansion in export trade met with very much greater success than the more orthodox methods of other countries. The methods by which Germany has acquired raw materials from Eastern Europe under clearing agreements and the quality and price of the goods which are sold in exchange, can hardly increase the willingness of her partners in these agreements to continue the present system. In fact, as world commodity prices and the demand in free markets improve, the pressure on the

* See Appendix I, Tables 4 and 5.

hitherto hard-pressed producers of Eastern Europe to sell wherever they can, and on whatever terms, is being diminished and they are able to adopt a more critical attitude towards Germany's advances. Moreover, the system of compensation or barter trading on a depreciated currency basis with countries outside Europe seems to be subject to increasing restriction by the German authorities, though the reason for this is not yet very clear.

The rise in prices can hardly fail to increase Germany's difficulties. At the same time it cannot be denied that Germany's difficulties in paying for all the raw materials required by German industry are, at any rate in part, of her own making. The volume of raw materials which Germany is at present importing is not, on the whole, very much less than the volume of German raw material imports in the last boom. The difference is that a large proportion of the present imports is earmarked for manufacture purely for rearmament purposes—and that the export industries which must, in the last resort, pay for the imports have been starved of supplies, though they have been better treated than industries manufacturing for ordinary home consumption. This diversion of activity into unproductive expenditure and capital development in excess of the current saving capacity of the nation can only take place at the cost of a lowering of the average standard of living.

British Commercial Policy

We have so far only referred in passing to the changes in the background of world trade which have been attributable to changes in British and British Imperial policy. It is customary in this country, particularly, perhaps, in political circles, to lay the major responsibility for the introduction of measures restricting world trade upon foreign countries, and to assume that the United Kingdom has been free from blame in this respect. An examination of British commercial policy since 1931 will soon reveal that the United Kingdom has not been guiltless, although the conditions of the time do provide extenuating circumstances.

In 1931 Great Britain was virtually the last, and infinitely the most important, free market in the world. Owing to the overvaluation of sterling, due to stabilisation at too high a level in 1925, and the gradual contraction of other markets, the United Kingdom virtually became the dumping ground of foreign exporters. In the autumn of 1931 the pressure on sterling was relieved by allowing the pound to depreciate, which in itself gave an indiscriminate encouragement to British exports and an indiscriminate discouragement to imports. These effects of the depreciation of sterling were reinforced by a general tariff whose subsequent progress has tended to be upwards rather than downwards. In 1932, a series of exclusive agreements was concluded at Ottawa between the members of the British Commonwealth which considerably enlarged the scope of the preferential tariffs applying to their mutual trade. Although it was stated that in principle increased preference was to be granted by lowering the preferential tariff rather than by increasing the general tariff, this principle was not always applied in practice. At the same time, the development of British agriculture under the Agricultural Marketing Acts of 1931 and 1932 has necessitated the limitation by volume of a number of agricultural imports into the United Kingdom.

The Background of Ottawa and the British Tariff

This combination of measures represented in a large degree an attempt to restore a balance of economic forces which had been tilted against the United Kingdom ever since the post-war stabilisation of sterling at too high a parity. The United Kingdom's share of the trade boom of 1929 was not very considerable, and the subsequent depression affected her among the first. In the light of these circumstances, the imposition of the British tariff in addition to the depreciation of sterling, and the conclusion of a series of exclusive agreements with the Dominions at Ottawa, may be said to have been inevitable at that time. These measures represented a drastic attempt to correct a drastic situation. But the question still remains: can these measures and the principles underlying them be regarded as the foundation of a permanent system calculated to serve the best interests of the United Kingdom and the other members of the British Commonwealth in all circumstances? This question is one which requires a reasoned answer.

The Ottawa agreements were, in essence, an attempt to safeguard at any rate part of the mutual trade of Great Britain and the Dominions from the disastrous effects of the general depression. Already the depreciation of sterling and the action of a group of countries which included not only the British Commonwealth, but also the Scandinavian countries, and some others as well in following the lead of the United Kingdom in monetary policy, had probably tended to increase the mutual trade of this group at the expense of their trade with the outside world. The Ottawa agreements and the bilateral agreements with foreign members of the sterling area which Great Britain afterwards concluded may be said to have consolidated this development and to have pushed it a stage further. The British tariff and the Ottawa agreements have not been the only factors stimulating a diversion of the trade of the sterling area, but their influence has been of considerable significance. This was bound to be so, if only because the British market is of such great importance in relation to international trade that any policy designed to favour some suppliers of it at the expense of others must have world-wide repercussions. The Ottawa agreements did in fact constitute a large-scale measure of discrimination, and the full consequences of this action must be faced.

The Effects of Ottawa on British and World Trade

Prior to 1931 the United Kingdom had given economic advantages to the Dominions and Colonies by, for example, allowing them access to the London capital market on especially favourable terms, as the Colonial Stocks Acts show, besides bearing the principal cost of Imperial Defence. Under the temporary stress of 1931 the full measure of such assistance had to cease, and the export of capital came almost to a standstill. When the United Kingdom introduced tariffs the Dominions were given a privileged status. Now for some years previously the Dominions had given substantial preferences to British goods. Preferences on tea, sugar and tobacco (on which there was a duty for revenue purposes) and the financing of the Empire Marketing Board to push Empire products were until 1931 all that the United Kingdom could do in this direction in return until the erection of a tariff system in 1931 and 1932 made it possible to grant concessions to the Dominions. This was done at Ottawa on a scale rather in excess of the concessions granted at Ottawa by the Dominions to Great Britain. This was only proper and repre-

sented a belated return by the United Kingdom for the benefits which had long been enjoyed by British goods in Dominion markets.

The Dominions were put in a preferential position in the British market. Some Dominion products, for instance lead and zinc, were admitted on the understanding that they were to be supplied at "world" prices. In these cases the tariff on foreign supplies was intended to benefit the Dominion producer by giving him a monopoly—or at least the first pick—of the British market, but at the same time to prevent him from using this monopoly to exploit the consumer. As a piece of administrative machinery, this system has proved unworkable, and has had to be revised through the adoption of a specific duty payable by the importer instead of by the purchaser, subject to a rebate for Empire supplies.

At the same time, general attempts were made to put Dominion products in the place of foreign ones, wherever Great Britain habitually imported the latter and there was some prospect of the Dominions being able to provide an equivalent. But too little attention was paid to technical factors. From the point of view of industry, certain raw materials coming from Empire sources were not satisfactory substitutes for those they replaced, while certain Dominion foodstuffs were not always of the same quality as those which they were meant to supersede. Linseed oil, chilled beef, and timber are examples, although in the last cases some improvement has been made. Even then, by forcing duplication within the Empire of equipment already adequately provided elsewhere, Ottawa was a source of economic waste. No amount of improvement, moreover, can yield equivalent supplies in the case of seasonal foodstuffs which are not available when they are needed. In general, little consideration appears to have been given to the requirements and preferences of the British consumer. One of the effects of Ottawa was, therefore, to change for the worse the position of the British consumer by restricting his range of choice. In addition, certain provisions appear to have had a disturbing effect on world prices.

In return, the Dominions made some concessions to British manufactured goods, but the right of the Dominions to possess manufacturing industries of their own was not disputed by Great Britain. Recommendations concerning import duties were left, in the majority of the Dominions, in the hands of Tariff Boards, which were instructed to hear applications for reduced or increased duties from British and Dominion manufacturers. The boards were expected to examine relative costs in the two countries, and to fix tariffs so as to afford opportunities for fair and reasonable competition. This was the so-called "scientific tariff," which is intended to equate national advantages in industrial costs. Were this taken to its logical extreme it would destroy international trade, since there would be no special advantage in producing anything in one place as against another.

One of the developments arising out of Ottawa was the extent to which India endeavoured, by means of specific tariff concessions, to extend her trade with the rest of the Empire, and, in particular, to secure a share of the British market. The Crown Colonies were represented at Ottawa, and some agreements affecting them were concluded, but it was not until twelve months later that preferential tariffs, or a quota system for textiles, were widely introduced throughout the Colonial Empire.

On the financial side, the United Kingdom and the Dominions agreed to pursue a common currency and credit policy, and the intention was expressed of working for a rise

in the level of commodity prices, but in the falling market which then existed, this was little more than a pious hope.

One of the most important aspects of the Ottawa Agreements is the constitutional precedent that they introduced. Since the Statute of Westminster, it has been considered highly undesirable that any two sovereign units of the Empire should make *inter se* agreements to the exclusion of other sovereign units. This principle would preclude the development of Empire bilateral agreements. It was the great triumph of Ottawa that it was able to retain the spirit and letter of this principle and at the same time to find a flexible method of developing economic agreements appropriate to the several parts of the Empire. Once the main Conference in which all parts of the Empire, including the Crown Colonies, were represented, had assembled, it was possible for them, outside the main Conference Chamber, to make among themselves bilateral trading agreements appropriate to their particular circumstances. As soon as the Conference learned that this task of separate agreement was completed, the main Conference was reconvoked, and all the bilateral agreements were jointly and severally laid before the main Conference which, without either approving or disapproving of them, took cognisance of them all. By this method, the unity of the Empire as a whole was retained, the independent sovereignty of its separate parts was fortified, and the obstacles to separate trade agreements were removed. But the establishment of this constitutional procedure means that the future development of the economic empire by sectional agreements will probably only be achieved by a repetition from time to time of the Ottawa procedure.

The economic aspects are, however, less reassuring. There has, it is true, been a growing willingness to think in broad terms of United Kingdom supplies as a whole, and of the best ways of securing them, rather than of the effects upon individual interests. It cannot, however, be said that sacrifices imposed on individual consumers or groups since Ottawa have always been for the general benefit. Even—at their best—on paper, the agreements were calculated to have more effect in diverting streams of visible trade in the direction of Great Britain and the Dominions than increasing the volume of world trade as a whole by opening up new sources of demand. A mere diversion of trade can at most only take the British Empire a fraction of the way back to complete recovery. Between 1929 and 1932, the volume of world trade fell by some 25 per cent and by 46 per cent in sterling value; in the period 1924 to 1929, foreign countries took 59.1 per cent by value of all exports from Great Britain, 63 per cent from India, 59.2 per cent from Canada, 49.1 per cent from Australia, 13.6 per cent from New Zealand, and 36.2 per cent from South Africa. Given such a position, little could be expected from a re-arrangement of the currents of trade alone.

The Diversion of Empire Trade

The diversion has been almost entirely one of British imports away from foreign sources, and in favour of the Dominions. Between 1931 and 1936, the share of the British Dominions in the United Kingdom's import trade rose from 28.7 per cent to 39.2 per cent. The proportion of imports supplied by European countries fell from 42.7 per cent to 34.2 per cent, and by foreign countries overseas from 28.6 per cent to 26.6 per cent. Between 1929 and 1936, the value of British import trade has fallen on balance by 30.6 per

cent. But imports from British countries have fallen on balance by only 7 per cent, compared with 38 per cent in the case of imports from European countries, and 43 per cent in the case of imports from foreign countries overseas. Clearly the most significant feature has been the benefit derived by Empire producers from a diversion of trade away from foreign overseas producers of foodstuffs and raw materials, such as Argentina. The association of industrial production with the European Continent and primary production with foreign countries overseas, which is implied by these figures, is not, of course, entirely valid, since the former group includes such countries as Denmark and the Netherlands, which supply the United Kingdom with a large volume of foodstuffs, while the latter group includes industrial countries like Japan and the United States. In addition, the influence of the British tariff in curtailing industrial imports in general, and of the formation of the sterling area in discouraging trade with other parts of the world must be fully allowed for in any attempt to assess the direct responsibility of Ottawa for these changes.*

There has been much less change in the distribution of British export trade. Exports to Empire countries rose from 43.7 per cent of the total value in 1931 to 49.2 per cent in 1936. Exports to European countries fell from 34.2 per cent to 31.2 per cent of the total, and exports to foreign countries overseas from 22.1 per cent to 19.6 per cent of the total. Compared with a net decline since 1929 of 39.5 per cent in the total value of British export trade, exports to the Empire fell on balance by 31 per cent, to European countries by 41 per cent, and to foreign countries overseas by 49.8 per cent.*

It will be seen from these figures that the European Continent is hardly less important than the Empire as a market for British goods. In the second place, the figures suggest that if the United Kingdom is determined to exclude supplies of foodstuffs and raw materials from foreign countries overseas in the interests of British and Dominion primary producers, there is likely to be a check to the growth of British exports to foreign markets. There is, of course, the qualifying factor that the purchasing power of primary producers was seriously affected by the heavy fall in prices of their principal products, although this factor had been almost completely removed by the end of 1936 with the recovery in commodity prices. It needs to be remembered, however, that the price factor affected British Empire producers hardly less severely than primary producers in foreign countries.

The diversion of trade in the case of primary products is very clearly marked. The index of the total volume of British food imports† (1927-29=100) rose to 117 in 1931 and after falling steadily to 103 in 1935, recovered to 105 in 1936. Food imports from the Empire countries also rose, on the same basis, to 117 in 1931, but had increased further by 1936 to 152. Food imports from foreign countries, however, after rising to 116 in 1931, fell continuously to a figure of 75 in 1936. Some very striking changes have occurred in the case of individual products. In terms of the 1927-29 average, total meat imports, which increased by 17 per cent up to 1931, had fallen on balance by 8 per cent in 1936, but imports of Empire meat had risen by 38 per cent, while imports of foreign meat fell by 30 per cent. In the case of dairy produce, of which total imports in 1936 were 39 per cent above the average of 1927-29, Empire imports showed a jump of 63 per cent, compared

* Full figures for each group are given in Appendix I, Table 8.

† According to the index of food imports prepared by the Oxford University Agricultural Economics Research Institute. For full figures, see Appendix I, Table 9.

with an increase of 16 per cent in foreign imports. In wheat and flour, and in fruit, the diversion has also been striking.

The same tendency towards the diversion of supplies to the British market can be observed in the Dominion export statistics. The following table shows in a condensed form, the proportions of the principal raw commodity exports of the British Dominions and British India which were consigned to the United Kingdom in 1929/30 and the latest available year.*

PROPORTION OF CERTAIN DOMINION EXPORTS CONSIGNED TO THE UNITED KINGDOM

CANADA:†	1929 or 1929/30	1935 or 1935/36
(i) Wheat and Other Agricultural and Vegetable Products	49	64
(ii) Livestock, Fishing and Dairy Produce	31	54
(iii) Pulp and Paper	7	16
(iv) Non-ferrous Metal	10	46
(v) Iron and Steel Products	9	21

INDIA:‡	1929 or 1929/30	1935 or 1935/36
(i) Rice	2	5
(ii) Oilseeds, etc.	17	20
(iii) Tea	85	89
(iv) Raw Cotton	7	13
(v) Raw Jute	25	22
(vi) Jute Manufactures	6	9
(vii) Hides and Skins	46	62

NEW ZEALAND:§	1929 or 1929/30	1935 or 1935/36
(i) Butter	76	97
(ii) Cheese	100	100
(iii) Meat	89	99
(iv) Wool	70	69

SOUTH AFRICA:§	1929 or 1929/30	1935 or 1935/36
(i) Sheep's Wool	41	25
(ii) Sheepskins	27	23
(iii) Uncut Diamonds	75	69
(iv) Foodstuffs	73	70
(v) Wattle bark and Extract	27	30
(vi) Hides and Skins	56	23

AUSTRALIA:‡	1929 or 1929/30	1935 or 1935/36
(i) Butter	85	91
(ii) Wheat	54	49
(iii) Flour	18	21
(iv) Beef	50	85
(v) Mutton and Lamb	88	98
(vi) Fruit	73	74¶
(vii) Wool	35	36
(viii) Sheepskins	27	16¶
(ix) Non-ferrous Metals	52	84¶

The increase in British imports of Dominion foodstuffs and raw materials has, in fact, been very striking and of substantial assistance to the Dominions during the depression. But by reason of the very magnitude of this increase and of the coming stabilisation and perhaps decline of the population of Great Britain, some anxiety is being felt in the Dominions as to the ability of the British market to absorb indefinitely further potential increases in their production of foodstuffs and raw materials. Fantastic as it may seem in view of Sir John Orr's estimates that some 22½ million people in this country need to increase their consumption of milk, fruit, butter, etc., by percentages varying from 12 to 25 per cent if they are to obtain a satisfactory nutritional standard, British agricultural

* See also Appendix I, Tables 15-19. † Years ending March 31st. ‡ Years ending June 30th. § Calendar years. ¶ 1934/35.

policy tends to stabilise things as they are, and appears to be retarding the switch over of British agriculture from the types of product which should economically be imported from the Dominions and elsewhere to the production of those foodstuffs which are needed to raise the standard of living at home. This is no necessary part of Ottawa and is a substantial obstacle to the maintenance and development of Empire economic co-operation. It represents a fundamental contradiction of policy which is discussed in greater detail later in this report along with other political factors.

Thus, in spite of the enlarged share which the Dominions have won in the British market, they are still seeking outlets for the further output which they can, and indeed must, produce and dispose of if they are to maintain their populations in a condition of reasonable prosperity and to continue to meet their external obligations. In this search for outlets, they have encountered two formidable obstacles. The first consists of the comprehensiveness of the tariff concessions made to British manufacturers before and at Ottawa. There are several countries, for example Germany and Japan, which are only too anxious to take raw materials from the Dominions, provided that they are allowed to pay in goods. The Dominions, having conceded preferential rates of duty to British manufacturers on a long list of manufactured goods, find it extremely difficult to make such concessions to foreign countries as would enable them to ship goods on competitive terms and take Dominion raw materials in exchange.

Canada has, it is true, succeeded in negotiating a new trade treaty with the United States, which has had the result of expanding the Canadian market for timber, livestock, dairy produce, animal fodder and fish in return for reductions on 767 tariff terms covering imports from the United States which were valued at $400 millions in 1930.

Australia, also, has lately reorganised her trading relationships with Japan, and has extended intermediate tariff treatment on certain goods in return for purchases of Australian wool. New Zealand has made it clear that if a market cannot be found within the Empire for an increasing output of dairy produce, her Government will not hesitate to seek outlets elsewhere on a reciprocal basis.

The second and less obvious obstacle which has confronted the Dominions in their search for markets is presented indirectly by the British tariff itself. Prior to 1932 much of the trade of the Dominions with Europe was conducted on a multilateral basis. A hypothetical example may be used to illustrate this. Australia may have sent wool to Czechoslovakia. Czechoslovakia sent nothing directly in return, but exported glass to Great Britain. The sterling proceeds of the sales of glass to Great Britain were remitted by the Czechs to Australia in payment for the wool, and Australia might use the sterling funds thus acquired in purchasing goods from Britain or paying interest on external obligations, or in employing British shipping, insurance, or other services. But the circle is broken if Czechoslovakia is prevented from exporting glass to Britain. Since the erection of the British tariff, such multilateral transactions have been severely handicapped. Australia has been unable to expand her wool-growing industry to the extent that would have been possible had foreign markets been more readily available; and British invisible exports have been heavily curtailed.

The Importance of Foreign Markets

The importance of foreign markets, as opposed to markets within the British Empire, to both Dominion primary producers and British industrialists, can hardly be overestimated. As stated earlier, in the period 1924-29 foreign countries took 59.1 per cent of all exports from Great Britain, 63 per cent from India, 59.2 per cent from Canada, 49.1 per cent from Australia, 36.2 per cent from South Africa, and 13.2 per cent from New Zealand. The proportionate dependence of the Crown Colonies is in most cases even greater. In the same period, the group comprising the African colonies, Malta, Cyprus, Ceylon and the West Indies sent 46 per cent of its exports to foreign countries. For British Malaya the proportion of exports taken by foreign countries was as high as 74.5 per cent.

The relative importance of trade with various countries of the British Commonwealth in the total trade of a number of foreign countries is shown in some detail in the Appendix.* The proportionate importance of the trade of these countries with the British Commonwealth as a whole is shown below:

Proportionate Importance of the Trade of Various Foreign Countries with the British Empire

	1913	1927-1931 (Avge.)	1932	1933	1934	1935	1936
Percentage of Total Imports Consigned from British Countries:							
U.S.A.	30.6	31.0	26.0	29.7	32.8	33.6	36.5
Japan	38.2	30.5	28.4	31.7	31.5	31.3	31.7
Germany	19.3	19.2	17.3	18.6	16.7	14.9	—
France	21.8	21.2	16.5	16.1	15.9†	16.3†	14.9†
Percentage of Total Exports Consigned to British Countries:							
U.S.A.	45.1	41.5	38.9	36.9	39.7	41.6	42.3
Japan	16.5	21.5	26.8	25.7	27.6	26.7	26.6
Germany	19.4	14.9	12.1	13.0	15.1	15.2	—
France	22.0	19.6	13.3	11.6	10.6†	12.0†	20.6†

The contrast between the progress of British and foreign consumption of the primary products of the overseas Empire is even more striking, if the examples of certain commodities are taken singly. Details of world production and trade in wool, wheat, butter and cheese in each of which more than one Dominion is interested, are given at some length in the Appendix.‡ Australia, for instance, has increased her exports of greasy wool between 1929 and 1936 from 720 million lbs. to 764 million lbs. Of this total, the United Kingdom took 216 million lbs. in 1929 and 286 million lbs. in 1936. Japan took 123 million lbs. in 1936 (considerably less than the average of the previous five years) against 89 million lbs. in 1929. The purchases of other countries had fallen from 415 million lbs. in 1929 to 254 million lbs. in 1936. Since, in particular, Japan's purchases of Australian wool were unduly restricted in 1936, there is clearly more room for an expansion of the market for Australian wool in foreign countries than in the United Kingdom at the present stage.

* Appendix I, Tables 11-14. † Incomplete. ‡ See Appendix I, Tables 20-23

Similarly, exports of New Zealand butter to the United Kingdom increased from 70,225 tons in 1929/30 to 125,360 tons in 1934/35. Total exports increased only from 92,387 tons to 129,704 tons in the same period. Australian exports of butter to the United Kingdom rose from 41,079 tons in 1929/30 to 87,917 tons in 1935/36, but total exports increased only from 48,091 tons to 94,800 tons.

Fundamental Factors in British Economic Policy

In the light of recent developments in world trade and world economic policy, and of the dependence of the trade of the British Commonwealth in the long run upon world trade, of which some evidence has been given above, there would seem to be ground for a serious reconsideration of the commercial policy pursued by the United Kingdom and the Dominions since 1931, taking into account their fundamental interests in the long period. The view has already been expressed that the setting up of the British tariff and of the system of preferences introduced at Ottawa represented an essential measure of self-preservation under the pressure of extreme economic circumstances and a balance of forces which had been weighted against the British economy for a considerable period of years. It was a time when the question of immediate economic survival was of more importance than long-term policy so that, from the practical point of view, measures which promised to safeguard British economic and commercial interests in the short run had to be regarded as immediately justifiable, whatever the damage done to world trade, and therefore, in the long run, to British interests themselves. It is necessary to recognise that the advantages secured for trade within the Empire *were* secured in a large degree by the diversion of trade, and therefore to the detriment of foreign interests. Now that the immediate crisis has passed, the time has come to consider whether, in view of the vital dependence of the British Commonwealth on world trade, the actions taken then were not as inimical to British interests in the long run as they were beneficial in the short run.

The British Empire is, and is likely to remain, on balance, a producer of raw materials and foodstuffs far in excess of its own consuming capacity. In fact, if even the existing productive resources of the Empire are to be fully employed and the legitimate aspirations of overseas producers for the achievement of a higher standard of living are to be met, the excess of Empire primary production over Empire consumption will be considerably greater than it is at present. Great Britain itself is the only large consuming market for raw materials and foodstuffs within the British Empire. The possibilities of the expansion of consumption in the United Kingdom are not indefinite, in view of the tendency of British population to become stationary or even to decline. Great efforts have been made since 1932, within the limitations imposed by British agricultural policy, to increase British consumption of Dominion foodstuffs and raw materials. But even if these limitations were removed, and if the problem of malnutrition were adequately tackled, there is a limit to the increase in British consumption of bulk foodstuffs and raw materials, owing to the trend of population and owing to the fact that further increases in the standard of living are likely to give rise to an increased demand for perishable foodstuffs, services, and durable consumption goods rather than to an increase in bulk consumption.

The white population of the whole of the rest of the Empire is little over half that of the United Kingdom, and in respect of the consumption of foodstuffs is already living

at a higher standard, on the average, than the population of the Mother Country. The coloured population of the Empire is large, but its standard of living is low and must probably remain so for some time to come. The extent to which the overseas Empire can be expected to increase its consumption of its own produce is therefore small in relation to its potential productive capacity.

For the same reasons, it is doubtful whether the overseas Empire can, for some time to come, absorb directly more than a certain proportion of total British exports of manufactured goods.

The conclusion of bilateral trade agreements by the United Kingdom with foreign members of the sterling bloc has done something to increase the trade in manufactured goods of the United Kingdom, but the agreements have, if anything, increased the surplus of raw commodity production over consumption within the Ottawa system and the related sterling area by the inclusion of such countries as Argentina and Denmark which are net exporters of primary foodstuffs on a substantial scale. It must, in fact, be recognised from the outset that the primary producing interests of the overseas Empire and the manufacturing interests of Great Britain are both far wider than the market which the Empire itself, or even the sterling group, can supply. If the measures of self-preservation which the British countries took in 1931 and 1932 have, on balance, made it more difficult for foreign countries to acquire, either directly or indirectly, the goods which the Empire urgently desires to sell them, the time has surely come to consider whether modifications of those measures are not now desirable purely from motives of self-interest. Merely to retrace the steps which were taken in 1931 and 1932 is not necessarily the most practicable or even the theoretically correct solution to the problem. The barriers which were created then did cause dislocations, but they have in the course of time been built into a system. To attempt to sweep them away indiscriminately would cause so much greater dislocation that it is hardly practical to make the attempt in these terms. What is wanted, rather, is a vigorous overhaul of the present system, accompanied, if necessary, by amendment in detail, in the light of a constructive long-term policy of trade development. If the common interest is consulted, as it should be in a long-term policy, it is probably inevitable that sectional interests will be injured or will believe themselves to be injured in the short period. Hitherto, however, sectional interests have been too often consulted exclusively, and the present impasse is partly due to that factor.

More hangs upon this problem than merely the economic development of the Empire. While it is certain that the overseas Empire must look increasingly to industrial Europe to provide an expanding outlet for its own expanding production of raw commodities, the pressure of Continental Europe's need of raw commodities is increasing to the point where violent measures may soon be taken to satisfy it. Although economic pressure may not often be the sole cause of war, few would deny that it can be a powerful contributory factor. In this sense, the economic appeasement of Europe is essential to its political appeasement. Many countries are struggling to build up their economies, and to acquire the essential resources with which to do so, although their internal wealth has been inadequate and the outlets for their exports too restricted to allow them to achieve their object without serious dislocations of their external trade, and in fact of their whole social structures.

This must be a matter of immediate concern to the United Kingdom and to the British Commonwealth as a whole. For since the sterling group is a net exporter of raw materials and commodities, and since the United Kingdom is a net exporter of many classes of manufactures, capital goods and services in excess of the capacity of the Empire to consume them, British economic interests are closely dependent upon the encouragement of a rising world standard of living and political tranquillity. Hence, it must repay these interests, at this stage, actively to assist in the development of the backward areas of the world.

The British tariff constitutes one of the more important impediments to world trade which have been created since 1931. It is, on the whole, low compared with the tariffs of many other countries. But in estimating the restrictive effect of any tariff on world trade, it is necessary to take into account not only the absolute height of the barrier to be surmounted, but also the capacity of the market which it surrounds. On this criterion, the effects of the British tariff in contracting world trade must be acknowledged as more formidable than the effects of much higher tariff walls in much less important importing countries.

The events of the autumn of 1936 and the spring of 1937 have shown a strong unanimity of opinion among leading economists regarding the desirability of the relaxation of British import restrictions, even at the expense of causing a temporary disequilibrium of the British balance of payments. This step has been advocated for reasons of primarily internal economic policy as a means of conteracting the rising tendency of costs and prices which threatens the stability of internal industrial recovery. It is widely regarded as preferable to, and, to some extent, an insurance against, a rise in the rate of interest. Industrial recovery in the home market has proceeded far enough to be able to stand upon its own feet. British economic activity no longer needs an indiscriminate stimulus, but a specialised stimulus directed towards the solution of certain special problems. Most important among these is the problem of the depressed areas—areas which are particularly dependent upon export trade. The grant of greater freedom of access to the British market to potential customers of the British export trades would provide just such a special stimulus as is needed to solve one aspect of the depressed area problem.

From considerations of internal policy alone, therefore, the reduction of the British tariff already appears to be overdue. When, in addition, the factors preventing the expansion of the external trade of the British Commonwealth are such as have been shown earlier, the case for tariff reduction becomes doubly strong.

At the present time, the psychological effect of even the smallest concession in a market of such importance as the United Kingdom would be wide and beneficial. H.M. Government has, however, given no official lead in this direction. In fact, the statement made at Geneva in the autumn of 1936 was too negative to be of any encouragement to such other powers as may have held liberal views on the subject of international trade. If the United Kingdom is prepared to do no more than refrain from further currency depreciation and from increasing tariffs, the British contribution towards the expansion of world trade would not amount to much. A later statement, made by the Prime Minister in answer to a deputation, at the end of March 1937, somewhat amplifies the

Government's earlier views. The importance of cultivating a freer exchange of goods and services was appreciated, particularly as a contribution towards the promotion of world peace. In the view of H.M. Government, the main obstacle to the development of international trade was the existence of the present systems of quota restrictions on industrial goods and exchange controls. But it was clear that action in these matters had to be taken by other governments, since there were no exchange controls in the United Kingdom and the only quota restriction on industrial goods was the flexible duty-quota control of imports of iron and steel, which was part of an international cartel agreement. As regards tariffs, those which existed had been imposed to prevent the increase of unemployment and to protect the standard of living of the country. They had not prevented the development of trade. In fact, although when they were first introduced it was essential to rectify the balance of payments by a substantial reduction of imports, since 1933 imports into the United Kingdom had considerably increased.

On the evidence of this statement, H.M. Government clearly seems reluctant to reverse its tariff policy of 1931 and 1932. The world's verdict will, however, depend upon the extent to which this reluctance is accompanied by a genuine and vigorous drive to enlarge world trade through some alternative technique more suited to the present situation. It is because the background of international trade has changed in the manner described in this chapter that the reluctance of H.M. Government is in part justified and that a new alternative technique must be found. An attempt in this direction has been made by the signatories of the Oslo Convention. But their efforts to secure an expansion of trade by tariff reductions on a limited regional basis may not receive much encouragement from the British Government in view of a later passage in the same statement by Mr. Baldwin, in which was stressed the danger of low tariff groups in promoting discrimination and leading to retaliation and tariff wars. The British Government has, however, gone so far as to collaborate with the French Government in inviting M. Van Zeeland to undertake preliminary informal investigations in various countries as to the possibility of securing a general relaxation of quotas and other obstacles to international trade. But it is vital that constructive action should not be unduly delayed.

Discrimination in Colonial Markets

Before proceeding to a detailed discussion of the practical aspects of this problem of evolving a new technique to fit the changed economic background of international trade, it is necessary to give prominence to one aspect of recent Imperial policy which appears to be fraught with dangerous economic and political consequences. In most discussions of the principle of imperial preference and of imperial economic development, the position of the Crown Colonies is left very much in the background. In practice, the Crown Colonies have also been treated with almost equally scanty consideration.

Towards the end of 1933, the system of Imperial preference was extended to the Colonies generally through tariff alterations and the imposition of quotas on the import of textiles. These developments had far-reaching effects, even though already before this date some Colonies had given limited preferences, while at all times the Crown Agent system gave a substantial advantage to the British manufacturer. The immediate occasion for the change was the rapid growth of Japanese competition, especially in textiles.

Those who imposed the restrictions seem, however, to have paid no attention to the position of the colonial consumer, or to the effect of such measures upon other markets and upon the volume of world trade in general. Cheap Japanese textiles and the more expensive Lancashire goods are interchangeable only to a limited extent. The effect of the introduction of the quota system has been to hold down the standard of living in the Colonies, and to prevent the tapping of an entirely unexplored level of demand which no Western country has yet succeeded in satisfying.

The extent to which this forms an obstacle to the natural development of Colonial markets may be appreciated by a comparison of the textile imports during the last three years of Kenya and Uganda on the one hand, and Malaya and Ceylon on the other. In Kenya and Uganda, the Open Door is maintained of necessity under the terms of the Congo Basin Treaties. Imports of cotton textiles increased from 52½ million yards in 1934 to 60½ million yards in 1936. Imports from Japan increased from 44.9 million yards in 1934 to 54 million yards in 1936; imports from the United Kingdom fell from nearly 5 million yards in 1934 to 3¾ million yards in 1936. In Ceylon, the quota system for textiles is in force. Ceylon's cotton textile imports fell from 78 million yards in 1934 to 66 million yards in 1936; Japan's share fell from 33 million yards in 1934 to 10 millions in 1936—a reduction of 23 million yards; but imports from Lancashire increased only by 20 million yards—from 11.7 millions in 1934 to 31.5 millions in 1936; and imports from all sources other than Japan fell by 8 million yards. Similarly, in Malaya, where quotas are also in force, cotton textile imports fell from 146 million yards in 1933 and 144 million yards in 1934 to 104 millions in 1935. Between 1933 and 1935, imports from Japan fell by 45½ million yards (from 99½ millions to 54 millions), but imports from the United Kingdom increased only by 7½ million yards (from 26 millions to 33½ millions), and imports from all sources other than Japan by 3½ million yards.*

Apart from the economic and social consequences for the native populations of the colonial territories, the introduction of discrimination within the last few years in colonial markets marks a grave departure from traditional colonial policy in the political sphere. It has always been the boast of Great Britain that she has acted in the position of a trustee for the best interests of the colonial populations under her care, and has governed the Colonial Empire essentially in the interests of the colonial peoples. Non-discrimination in the import trade was an essential part of this policy, and for this reason the introduction of discriminatory quotas and tariffs since 1932 may be said to have shaken the foundations of the concept of Imperial Trusteeship. Moreover, as long as the power of foreign countries to purchase from the colonies is restricted by discrimination against their exports to the colonies, it is hardly correct to assert that access to raw materials in British colonial territories is completely free to all. This recent development of British colonial policy has not only lent force to the colonial aspirations of other powers and the misguided economic arguments on which they are based, but it has thwarted the true economic interests of the colonies themselves. As has been indicated earlier in this chapter, the colonial territories have at least as great an interest in trade with the outside world as in trade within the Empire. In the immediate economic interests of the colonial populations themselves, and in the interest of preserving the best concepts of colonial government, it seems vital that

* See also Appendix I, Table 10.

when the question of admittance on a larger scale of foreign goods to Empire markets comes up for consideration, the reversal of the policy of discrimination in the Crown Colonies should be considered as the first means of achieving this object.

Unfortunately, H.M. Government appears to have overlooked the existence of these factors. In his statement of March 22, 1937, the Prime Minister indicated that a return to the Open Door policy had been considered by the British Government and had been found open to objection. It was considered that full and immediate imposition of an Open Door would impair the authority of colonial legislatures and impede their progress towards self-government by limiting their authority in fiscal matters. Further, it would seriously weaken the right of the Colonial Empire to claim preference in the United Kingdom and other Empire countries, which, in the absence of equivalent opportunities in other metropolitan markets, was essential to its economic well-being. Conversely, it would prevent the Colonial Empire from taking action in its own economic defence against discrimination by other countries; and, finally, it would, in present circumstances, tend to favour the trade of countries with an exceptionally low standard of labour costs, to the disadvantage of the trade of other countries with higher labour standards. The question of economic policy in colonial areas could not be divorced from the question of economic policy between metropolitan countries, and, in the present circumstances, H.M. Government saw no justification for reversing the policy of Imperial preference which had contributed greatly to the prosperity of the Colonial Empire.

Some of the reasons advanced would have appeared convincing in the mouths of the colonial legislatures themselves, but they do not carry a great deal of weight against the other social and political considerations which enter into the question. Although the Prime Minister's statement rejects the restoration of the complete Open Door by a unilateral gesture, there is nothing in it which would preclude the reduction of colonial import restrictions on a bilateral basis, in return for specific concessions to colonial or other British goods elsewhere. Since emphasis has been laid on the necessity for regarding colonial economic policy, only in conjunction with economic policy as between metropolitan countries, and since the principal colonial exports, being for the most part raw materials, are not dutiable in most countries, concessions in the colonial market could, in fact, be made one of the principal features of a bargaining policy by the United Kingdom. This would, indeed, be in accordance with the avowed intention of H.M. Government to pursue bilateral methods of trade development. How far it is in the interests of the colonial populations to be used as bargaining weapons, how far it is politically advisable at the present time to brandish so openly the weapon of political control of colonial territories as a factor in world economics, and how far such a policy would lead to greater freedom of trade, is, to say the least, open to doubt.

III. THE ROLE OF GOVERNMENT COMMERCIAL POLICY

Summary

(i) The functions of government in relation to trade in general may be defined as, first, the regulation of the workings of economic processes in the light of political and social factors, and, second, the improvement of the working of the economic process by economic measures of its own. In the sphere of international trade, the government has to reconcile external commercial policy with internal economic and social policy and external politics. The government is the ultimate and only arbiter in matters of policy, and changes in policy can only be brought about by government action or government goodwill. In this connection the government has the particular responsibility of watching the interests of consumers, who are not represented in any other way. Different governments have placed very different interpretations on these duties, especially in the relation between the formulation or control of policy and the execution of policy. Some governments have monopolised both, while others exercise a very direct control over the execution of policy. In the United Kingdom the government takes no part in the execution of policy, and in these circumstances there is a danger that policy will not always be very precisely formulated. The ideal system probably involves clear definition of policy on the part of the government, while at the same time avoiding interference with the ordinary freedom of commercial operation.

(ii) The realignment of currencies and the abandonment of deflation over the greater part of Western Europe in September 1936 presented the world with a great opportunity to secure a greater volume of international trade. But it would be a mistake—and events are proving it a mistake—to expect that there can in practice be much easy sweeping away of trade barriers. Constructive action by governments and industries is necessary, and the present network of trade restrictions must be attacked at definite points. Great Britain has so far failed to give a definite lead in this direction, but the initiative is being taken by the Scandinavian countries, Holland and Belgium—who were the signatories of the Oslo Convention —and by the United States and France. More recently, the British and French Governments have co-operated in setting on foot a preliminary enquiry into the possibility of breaking down restrictions to trade, which will be conducted by M. Van Zeeland, the Belgian Prime Minister. The British Government, however, according to a recent statement by Mr. Baldwin, appears to be reluctant to reduce any of its own import restrictions, and clings to the use of the unconditional most-favoured-nation clause in its most rigid form, which would seem to preclude the lowering of trade barriers on a limited regional basis.

(iii) International commercial treaties, and particularly British treaties, have been traditionally based on the use of the most-favoured-nation clause, usually in its unconditional form. While the unconditional M-F-N clause probably served a useful purpose, particularly to Great Britain, in assisting the establishment of free trade in the middle nineteenth century, its benevolent influence has become less and less effective in recent years. Generally, the use of the M-F-N clause in its unconditional form probably discourages the lowering of tariffs, because any concession made must be broadcast. Alternatively, increased skill in commercial bargaining and Customs administration has had the effect that many of the concessions so broadcast by the automatic operation of unconditional M-F-N are of little or no value except to the original recipient. The chief influences undermining the utility of unconditional M-F-N, however, have been: (*a*) the increasing use of quantitative measures of import control, which the existence of M-F-N obligations has, in the event, failed to prevent from being employed for discriminatory purposes, and (*b*) the formation of economic groups involving preferential arrangements which are, either legally or effectively, outside the scope of the clause—the British Empire being an important example.

(iv) Attempts to widen the area of relatively free trade on a limited basis by the formation of "low tariff clubs," encounter the difficulty that the existence of such "clubs"—which of course involve discriminatory treatment of imports—contravenes existing M-F-N obligations, except where the countries concerned form a group which has come to be regarded as a legitimate exception. The attempt, for instance, of Holland and Belgium to reduce mutual trade barriers under the Ouchy Convention of 1932, was defeated by the opposition of the British Government on these grounds. If "low tariff clubs" are to be made possible—and they represent one of the more favourable opportunities of liberating trade, although only on a limited scale—a less rigid insistence upon the strict interpretation of legal rights under present M-F-N arrangements will have to be encouraged.

(v) The dropping of any form of M-F-N clause from commercial treaties would be a grave step, since the clause safeguards important rights other than the promise of non-discrimination in the import of goods. Substitution of the conditional for the unconditional form would make possible a three-line tariff and therefore a "low tariff club." This could only be undertaken with full realisation of the administrative difficulties which the conditional form has caused in the past. The most promising immediate solution seems to be to secure a much more liberal interpretation of the potential exceptions to M-F-N, which would in effect still further restrict its scope, while retaining the present framework intact.

(vi) The argument in favour of proceeding by means of "low tariff clubs"—which mean multilateral agreements, although on a small scale at first—is strengthened by the limits which exist to the progress which can be made by further bilateral agreements at this stage. Great Britain was particularly favourably placed to make advantageous bilateral agreements after 1931 and 1932, but even these had some unexpected indirect effects of a harmful nature to be set against the advantages secured. In the present circumstances, the indirect disadvantages inherent in

bilateral negotiations—which depend largely on the diversion of trade from competitors—often appear to offset the potential concessions to be obtained. If trade in any one market is obtained at the expense of foreign competitors by political agreements, the foreign competition is often merely intensified in other "free" markets.

(vii) This consequence may be avoided or minimised, if supplementary and parallel negotiations between industrialists or producers are encouraged alongside government agreements, subject to proper government supervision. The lack of organisation in many British industries at present reduces the efficiency of official negotiators, even in bilateral talks between governments, owing to the inadequate or unequal representation of industrial opinion. Better organisation would improve the position in this respect, and would also facilitate wider industrial negotiations for the purpose of regulating the shift and incidence of international competition.

The Functions of Government in Relation to Trade

Before plunging into the legal intricacies of international commercial relationships, it may be convenient to analyse briefly the position of governments in general in relation to trade in general. The functions of a government in relation to trade are twofold—first, to restrain or regulate economic processes in the light of overriding requirements of political or social policy; second, to take such economic measures as will improve the working of the economic process itself. It has, therefore, two functions which are very often contradictory in effect. In relation to foreign trade, one of the primary functions of government is to smooth out difficulties and to secure a reasonable adjustment as between internal and external commercial policy. Governments are the ultimate arbiters of all commercial policy, that is to say, they have the powers to do whatever they wish to secure a particular end, if they are prepared to use them, and, in the last resort, the government's power is paramount in the planning and execution although authoritarian governments can act far more ruthlessly than democratic governments. Major changes in the trend of commercial policy can only be brought about through government action of some kind—even if action takes a passive form, such as the government goodwill which enables industrial groups to co-operate. In practice, therefore, since they are the sole arbiters of policy, it is essential that governments should possess a policy themselves so that even if they are unwilling to initiate the implementation of policy, they are possessed of a set of standards against which the desirability of specific projects can be judged. In formulating policy, governments must, or should, be guided to a large extent by the existence of their responsibility for watching the interests of consumers. Consumers, who represent the whole body of the nation, are otherwise unorganised and their interests can, in fact, only be efficiently represented through the government.

Different governments have different ideas on the ways in which these functions should be interpreted in practice. These differences are not so great in the matter of the control and administration of policy through the actual mechanism of government, as in the relation between administration and operation. In some countries—for instance, Russia, and, in a less advanced degree, Turkey and Iran—governments have added to

their responsibility for the administration of commercial policy, direct participation in commercial operations. In other countries, such as Germany and Italy, the government's administrative functions have been organised so that a very direct and effective control is exercised over the actual operation of business. In the democratic countries, such as the United Kingdom, even policy is often very vaguely defined, and, although governments have been forced to take an increasing interest in the administration of policy, they have done so with reluctance, and have not as a rule entered at all into commercial operations which are left entirely in private hands. Although policy is the responsibility of the government, there is a danger in conditions where the execution of policy is left mainly to other and unofficial bodies, that this responsibility will be neglected. In the ideal situation, the government would take pains to lay down a definite policy based on the widest national considerations, but while retaining sufficient administrative control to secure proper co-ordination would avoid all interference with the ordinary freedom of commercial operation. It is with a view to achieving this end that the suggestions put forward in this and the next chapter are made.

Foreign Commercial Policy in Relation to Domestic Policy

The previous chapter has been concerned with a brief analysis of the background of recent developments in commercial history, and of the fundamental requirements of the economic foreign policy of the British Commonwealth. It is now widely recognised that the expansion of British visible and invisible exports has become an urgent necessity in order to preserve a reasonable balance of internal economic activity, and that a progressive reduction of the various barriers to international trade is essential to that end. The realignment of currencies and the abandonment of deflationary policies by the countries of the former "Gold Bloc" in September 1936 have been commonly regarded as making the reduction of trade barriers easier and even automatic. In theory, the abandonment of untenable currency parities and the substitution of more rational exchange rates might be expected to facilitate the removal of those restrictions which were originally imposed purely for the protection of currencies. Moreover, the substitution of expansionist monetary policies for the deflation necessary to sustain the former parities, should, in theory, stimulate a rise in industrial activity requiring importation on a freer scale. In Great Britain, at any rate, the pressure of rising prices upon consumption and the cost of living and the existence already of widespread malnutrition due to insufficient consumption of certain foodstuffs, has stimulated a rising tide of popular protest against the restriction of imports. Now, the demands of a large rearmament programme have been superimposed upon an already large volume of industrial orders, so that growing anxiety is being expressed concerning the inflationary consequences of a rising spiral of prices and costs, unless import restrictions are relaxed. These conditions are not, by any means, confined to Great Britain, since there is a danger that many European governments in their revulsion from the social disasters of deflation experienced in the past five years, may fail to recognise the equally disastrous effects of inflation. There is a danger also that the weight of consumer protest will not gain sufficient impetus until inflationary conditions have developed too far to be corrected.

The easiest and safest means of counteracting these undesirable tendencies lies in increased imports and a general expansion of international trade, which would bring the

forces of international specialisation into play as a check to the rise in internal prices. The extension of trade opportunities and a general rise in the standard of living would also be powerful forces making for political appeasement. Sufficient time has now elapsed, however, since the currency changes of September 1936 to show that the hopes, based on theoretical considerations, of a general sweeping away of trade barriers are likely to be disappointed.

Existing trade barriers—whether tariffs, quotas, import licences or exchange restrictions—are of two types, the first due to long-term economic policies, and the second imposed as emergency measures since 1930. Now that basic alterations in currency parities have been made, it should, in theory, be possible to eliminate the second type. But in practice, the emergency has lasted so long that it is usually impossible now to distinguish between the two types and to deal with them separately. In many countries, pseudo-economic theories have been evolved as justification, after the event, for measures of trade restriction which were introduced in the first place as somewhat hastily improvised expedients to meet a temporary difficulty. The emergency measures of 1930 to 1932 have in fact become assimilated in the economic structures of many countries, and will for that reason be more difficult to eliminate than they were to introduce. Added to this is the fact, which has already been examined in some detail, that the growth of economic nationalism represents, at any rate in part, a permanent development based on evolutionary factors. Hence those restrictions on trade which are part of a permanent policy.

It would be optimistic to expect much unilateral reduction of trade barriers by governments, in their present temper. Insistence upon reciprocity is at present strong, and governments may for some time be reluctant to initiate the reduction in trade agreements unless they can obtain a *quid pro quo*.

But the pressure which a rapid rise in prices exerts upon consumers has already caused unilateral reductions of trade barriers in some countries, and is probably growing in intensity. In France particularly, consumer protests carry weight with the present government, and throughout the former gold bloc, governments are generally anxious to avoid that increase in the cost of living which popular opinion has come so widely to dread as one of the consequences of currency devaluation.

The United Kingdom, at any rate, is not disposed to make the first move, judging from the statement made by the British representative at Geneva in the autumn of 1936, and the subsequent behaviour of the British Government. According to the Geneva statement, which was made shortly after the tripartite currency agreement, the contribution of the British Government towards increased international trade was, for the moment, to stop short at abstinence from further depreciation of sterling or from increases in the British tariff in response to the devaluation of other currencies.

The British Government has subsequently lived up to this statement in refusing to take a lead in breaching the defences of restriction, although it is in many ways best placed—and likely to gain most—from giving that lead. Fresh light was thrown on the government's attitude by a statement made by Mr. Baldwin in March 1937. While subscribing to the view that the cause of world peace would be promoted by the freer

exchange of goods and services, the government holds that the main obstacle to its achievement in practice is the existence of the present system of quota restrictions on *industrial* goods and exchange controls. Action in these matters, must, in the opinion of the British Government, clearly be left to other governments, since there are no exchange controls in the United Kingdom, and the only quota restriction on industrial goods is the "flexible duty-quota control" of imports of iron and steel, which form part of an industrial agreement with the chief supplying countries. The British Government can take every opportunity to urge action upon other governments, but does not regard the initiative as resting with the United Kingdom. As regards the British tariffs, those which exist were imposed to prevent the increase of unemployment and to protect the standard of living. In fact, they have not, in the opinion of the government, prevented the development of trade. Although, when they were first introduced, it was essential to rectify the balance of payments by a substantial reduction of imports, since 1933 imports into the United Kingdom have considerably increased, and this will undoubtedly provide a stimulus to international trade generally.

It is in accordance with this narrow interpretation of its responsibilities that the British Government has left the initiative to others, who may, however, find it difficult to appreciate the economic basis for the distinction which the British Government draws between quotas on industrial goods and other quotas, particularly the agricultural quotas which this country has imposed. It is difficult to see how the effects of the two sorts of quotas in restricting trade can differ materially. The distinction drawn by the British Government on this occasion is reminiscent of an earlier (though different) distinction which was made at the World Economic Conference in 1933, with the same comforting result of labelling quotas imposed by the British Government as meritorious and all others as injurious.

In the event, the initiative towards the development of a greater freedom of trade has been taken by France and the United States, and by the smaller states of North-Western Europe. Since the early part of 1937, the statesmen of the Scandinavian countries and of Holland and Belgium have been devoting their attention to discovering means of increasing international trade. They have turned to the possibility of stimulating increased trade on a limited regional basis by mutual reductions of trade barriers within their own group. A similar effort was made by the same group of countries at an early date by means of the Oslo Convention of 1930 and the Ouchy Convention of 1932, though these efforts were defeated by the economic circumstances of the times and by the insistence of the United Kingdom on the rigid interpretation of M-F-N rights. It would seem that the attitude of the British Government has not changed in this respect. At any rate, Mr. Baldwin's statement, to which reference has already been made, rejects the proposal for the creation of a low-tariff group, to which the British Government sees two fundamental objections. In the first place, it is held that the creation of a low-tariff group would involve discrimination against non-participating countries and might lead to retaliation and tariff wars; it would involve the disappearance of the general application of M-F-N treatment, to which the British Government attaches special importance; the political friction which would be created by reprisals and tariff wars was obvious. In the second place, experience showed that practical results were not likely to be achieved except by

bilateral negotiations, although the government did not reject the idea of multilateral negotiations, if it could be shown that the time was opportune.

The maintenance of this attitude on the part of the British Government would seem seriously to prejudice the chances of the Oslo group from reaching a regional solution to their trade difficulties. The British Government has, however, combined with the French Government to invite M. Van Zeeland, the Belgian Premier, to undertake "preliminary informal investigations in various countries as to the possibility of securing a general relaxation of quotas and other obstacles to international trade." It is to be hoped that these investigations will not be so preliminary and informal as to act merely as a reason for further delay in grasping the problem directly.

The idea of a "low-tariff club" which the British Government at present rejects, has often been advocated as a means of starting a revival of trade. It has been suggested that, in view of the poor prospects of any general or voluntary lowering of trade barriers, the British Government should take the initiative in endeavouring to enlarge on a limited basis the area of free trade to which the British Empire belongs, by securing the adherence of other countries to a "low-tariff club." This would then include a bloc of countries who would have agreed to reduce trade restrictions *inter se*, while retaining the former level of restrictions against other countries which refused to participate on a reciprocal basis. This suggestion is worthy of intensive examination in view of its obvious attractions. There is no denying that it would cause dislocations in the present mechanism by which international commercial intercourse is regulated, and for this reason the idea has been rejected by the British Government. But before passing judgment on its practical value, it is necessary to examine all the pros. and cons. Some examination must, therefore, be made of the efficacy of the present system, and of the amount of dislocation which would be caused by the creation of a "low-tariff club"—or even whether it could be applied at all in the light of existing commercial arrangements.

The Use of Most-Favoured-Nation Clauses in Commercial Treaties

International commercial relationships, and particularly British commercial relationships with foreign countries, have been built up around the use of the M-F-N clause in commercial treaties. The various uses of the M-F-N clause, its qualifications, drawbacks and advantages, and its practical influence upon international trade have formed the subject of a mass of study which is, to the layman, highly intricate and obscure. The use of the M-F-N clause is, nevertheless, of such great practical importance in connection with any attempt to modify or redirect British commercial policy that it is necessary to enter upon a fairly detailed examination of its significance before proceeding further. The difficulties in doing so are increased by the fact that in spite of the familiarity with which the clause is freely spoken of by its initials and its enormous importance in determining past economic developments, no detailed interpretation of the British Government's official attitude towards it ever appears to have been made public.

The M-F-N clause, in essence, amounts to a promise which is included in commercial treaties, that discrimination shall not be practised in the dealings of one country with another, although in practice it has taken the form of a pledge of equality of treatment

with the "most-favoured nation" and derives its name from this fact. The clause is applied in respect of a variety of matters in different treaties, and commonly covers such important fields as the rights of persons and companies operating outside their own country, and the treatment of shipping, as well as regulations concerning the import of goods, with which we are principally concerned here. The former aspect is, however, by no means of negligible importance and must not be forgotten in any discussion of the question whether M-F-N should be abandoned or modified. A typical M-F-N clause covering the trade in goods reads as follows: "Articles produced or manufactured in the territories of one of the two contracting parties imported into the territories of the other, from whatever place arriving, shall not be subjected to other or higher duties or charges than those paid on the like articles produced in any other foreign country."

In its pure form, and as almost always applied in British treaties, the pledge of M-F-N treatment is unconditional—in that it guarantees that a concession made to one country will be automatically extended to all other countries enjoying M-F-N rights—and unlimited in that it applies to all categories of goods. Other countries, such as the United States and France, have at times adopted a conditional form, whereby the obligation to extend any concession made to a third party to all other countries to whom M-F-N treatment is pledged, is made conditional upon the production by such other countries of "an equivalent counter-concession." In effect, the conditional form, therefore, represents the negation of the true spirit of M-F-N, which is by nature unconditional. It represents rather an attempt to rationalise and assist bilateral bargaining by guaranteeing that no State that is prepared to pay the price shall be deprived of the opportunity to strike a bargain.

Under the unconditional form, any tariff reduction must automatically be broadcast over the whole range of countries with which the grantor has concluded M-F-N agreements. But although the area of free trade is thus automatically widened by the generalisation of any concession, the knowledge that any concession *must* immediately be granted to countries which make no immediate return, is likely to prove in some degree a deterrent to any grant of concessions at all. On the other hand, if the conditional form is used, it is practically impossible to decide to the satisfaction of all parties on each and every occasion what constitutes an "equivalent counter-concession"—hence the use of the conditional form has, historically, proved a fertile cause of ill-feeling and tariff disputes.

Under either type of clause, it is clear that in bilateral negotiations a country will always attempt to grant concessions chiefly in respect of commodities of which its opposite number is the principal supplier. In this event, the generalisation of the concession is of small or even negligible practical importance, and to the extent that negotiators are successful in achieving this, the practical influence of M-F-N in widening the area of free trade is minimised. A careful and minute sub-division of Customs classifications helps materially towards this end. There was an instance of successful evasion of the spirit of M-F-N by minute discrimination when on an occasion before the war Germany, wishing to exclude imports of Swiss milk, invented a special Customs item for milk produced at a certain altitude above sea level and imposed a heavy duty. This had the desired effect

of excluding Swiss milk while not interfering with imports from less mountainous countries. Neither form of M-F-N, of course, makes any promise which limits in itself the absolute height of tariffs.

Countries adopting a free trade policy or possessing a single line tariff for revenue purposes and not wishing to pursue a tariff bargaining policy will obviously benefit by securing the insertion of the unconditional form of M-F-N Clause in all their treaties. For in this way the maximum of concessions will be gained with the minimum of concessions in return. Great Britain was in this position in the nineteenth century, and was well able to insist upon the use of unconditional M-F-N owing to her virtual monopoly of international trade.

A country which wishes to pursue an active bargaining policy, on the other hand, will probably require, sooner or later, to set up a double or triple line tariff, in order to be able to discriminate among various suppliers according to the tariff treatment extended by them in return. This will commonly require either the sparing grant of M-F-N rights to other countries, in order to permit discrimination, or the employment of the conditional form of clause so that any concession made will only be generalised in so far as equivalent counter-concessions are forthcoming. Under the conditional form of M-F-N it is quite possible to set up a double or triple line tariff and to use it for bargaining purposes. Consequently, countries wishing to have a double or triple tariff will usually have to adopt the conditional form.

Under the dominating influence of Great Britain, the great extension of the use of the M-F-N clause occurred in the middle of the nineteenth century—though the clause itself is of considerably greater antiquity. It has always been used in British treaties, with the rarest exceptions, in the unconditional form. In the circumstances of the age, with greatly expanding international trade and the downward revision of tariffs, unconditional M-F-N presented few difficulties and many advantages, especially to Great Britain. After the decade 1860-70, the era of the Cobden treaty with France, the tide turned and with the growth of manufacturing industries in France, Germany and elsewhere, protective tariffs began to be employed as distinct from revenue tariffs, and the conditional form began to be adopted. But Great Britain was still employing a free trade policy, and unconditional M-F-N was still its best medium. A country with no tariffs cannot bargain with them.

In the post-war epoch, unconditional M-F-N clauses have, once again, been widely included in commercial treaties—the United Kingdom taking a strong line in their defence. But since the introduction of a wide import tariff system and of a policy of reciprocal bargaining in bilateral trade agreements, some misgivings have been expressed regarding the continued utility of the unconditional form and the use of conditional M-F-N in conjunction with an intermediate tariff has been advocated as a more advantageous basis for a bargaining policy. At the same time, a number of formidable obstacles have arisen to the free and automatic working of the clause which have largely stultified its general usefulness in preventing discrimination. These consist principally of the formation of economic blocs of one kind or another, and the spread of quantitative regulation of trade by quotas, import licence systems, and exchange controls.

Legal Exceptions to Most-Favoured-Nation Obligations

The exception of concessions to specified countries from the scope of M-F-N treaties, which is one factor leading to the formation of economic blocs, is by no means a new feature and certain standard cases have always been recognised as legitimate exceptions to general M-F-N obligations. Complete *Customs Unions*, such as that existing between Belgium and Luxemburg, fall into this class. In addition, *Regional Agreements* involving the grant of special preferences as between countries bound by special ties of a historical, geographical or ethnical nature have been excepted in a number of cases, though they require special recognition in each case. Great Britain has, for instance, admitted in various treaties the possibility of preferential treatment as between various countries, but on other occasions such recognition has been refused.* A recent instance of the refusal of recognition occurred in the case of the proposed Ouchy Convention in 1932 between Belgium, Luxemburg and Holland which would have provided for a progressive reduction of their mutual tariffs. The convention was, moreover, to be open to accession by all countries on the same conditions and accessions were in fact invited. H.M. Government never appears to have made a full statement of its attitude towards Ouchy, but from various answers given in the House of Commons it would seem that the government held itself unable to grant any concessions to the Ouchy group which would discriminate against other countries with which the United Kingdom had M-F-N agreements and, moreover, refused to tolerate any regime which permitted more favourable treatment of the goods of any country in the Dutch and Belgium markets than was extended to the United Kingdom. This decision was, of course, perfectly in accordance with the existing legal rights and obligations of Great Britain, but it destroyed a promising effort to secure increased freedom of trade within an important area. And since the attitude of H.M. Government appears to remain unchanged, it is to be feared that the efforts of the Scandinavian, Dutch and Belgian Governments to revive this movement at the present time will be thwarted by similar considerations. Although the British Government does not apparently consider that it has any direct responsibility for initiating a movement in favour of less restricted trade, every time that it blocks the efforts of other countries in this direction, it lays upon itself the moral responsibility of suggesting an alternative solution.

Imperial Preference regimes as between a mother country and her dominions and/or colonies are also held not to infringe the letter of M-F-N. This occurs since the M-F-N obligation, as expressed in most commercial treaties, takes the form of a pledge to extend the same treatment to the contracting party as that accorded to any other "foreign country." Since the British Dominions and colonies are not held by the United Kingdom to be "foreign" countries, non-British countries are excluded from the benefits of the lower preferential rates within the British Commonwealth. In modern British commercial agreements this is being made clear in the text. In view of the degree of autonomy enjoyed by the British Dominions, and of the large economic importance of the British Commonwealth, and of the fact that the British Dominions are able to contract their own treaties with foreign countries, this interpretation has caused dissatisfaction abroad.

* The United Kingdom has, at various times, admitted the possibility of preferential treatment as between the following countries: U.S.A. and Cuba; Spain and Portugal; Portugal and Brazil; Denmark and Sweden; Turkey's former Asiatic possessions, now mandated; Soviet Russia and the three Baltic States.

Certainly, it gives ground for the argument that the possession of "colonies" is a valuable economic advantage. Before Ottawa, the question hardly arose, but if so large a group of countries as that which constitutes the British Empire is to be treated by the world as a legitimate exception to M-F-N, other countries have certainly a case for suggesting that a more tolerant attitude on the part of H.M. Government towards other potential exceptions, in the shape of regional agreements, would be not inappropriate. Logically, it would seem to be difficult to combat this argument.

There are also a number of more or less routine exceptions to M-F-N for administrative purposes, which are not however of substantial importance.

Most-Favoured-Nation and the Quantitative Regulation of Trade

There is no doubt that the principle of economic blocs, including large systems of Imperial preference, is diametrically opposed to the spirit of M-F-N. The case for regional blocs has also been strengthened and the case for M-F-N weakened by the extension of import licence systems, and it is possible to consider from a technical point of view the denunciation of all existing unconditional M-F-N treaties in order to permit the formation of a "low tariff club" as has often been advocated. Most commercial treaties are made for a limited term of years, five or ten, and are then subject to denunciation after notice of anything up to twelve months—though in times of instability such as the present many agreements are concluded for shorter periods. Denunciation would, therefore, be feasible in default of a special agreement to permit the formation of a "low tariff club." But it would be a drastic step, and likely to lead to a period of anarchy greater than that existing at present. It must also be remembered that a country cannot, except with difficulty, belong to two clubs, so that for practical purposes any club to which Great Britain belonged would have to include the Empire. And any country entering the club would need not only to renounce its own M-F-N treaties, but also the benevolence of countries who would not benefit from club membership and who see themselves losing a valuable market. Germany, for instance, might regard the participation of, say, Denmark in a "low tariff club" to which she herself did not belong in the same light as H.M. Government regarded Ouchy.

It is possible to argue that the M-F-N clause is valuable chiefly as a means of avoiding quarrels and preventing tariff discrimination even if it is not, in present circumstances, conducive to the reduction of tariffs. But a much more formidable argument against it than failure to reduce tariffs has been provided by the declining significance of tariffs as a barrier to trade and the growth in importance of licence systems and exchange controls, both as a means of controling trade and as a means of exercising discrimination.

Recent M-F-N treaties have often contained clauses attempting to secure a promise to avoid discrimination in the imposition of import restrictions. But here the difficulty arises of deciding what distribution of licences can be regarded as a fair interpretation of M-F-N rights. The German Government has at times argued that each supplying country has a right to an equal quota; the United Kingdom that licences should be allocated to suppliers in proportion to their imports in a given basic year. The French and others have issued licences on the principle of reciprocity, while Switzerland has argued that quotas are not within the scope of M-F-N at all.

The first of these arguments—for one equal quota for all—is specious and likely to prove unworkable. The second must soon become so or make new business impossible, although H.M. Government has generally adopted a rational attitude in permitting amendments. The third—for the issue of licences on a strict reciprocal basis—must lead to a rigidly bilateral canalisation of trade. In the event, the third appears to be winning and to be making nonsense of M-F-N, in spite of efforts by H.M. Government to uphold the second. Perhaps a frank recognition that import licences and M-F-N are incompatible, which is, in effect, the Swiss view, is the most helpful course. In any event import licences tend to be used to favour the import of essential commodities and therefore to cause a broad discrimination between countries. And, generally speaking, no country is averse to the use of quotas to evade M-F-N obligations where it is considered in the national interest to do so. Even where quotas are allotted on the basis of the distribution of supplies in a given year, some scope for discrimination exists according to which year is chosen as the base. As against this, it must be mentioned that the United States, in the series of reciprocal trade agreements concluded since June 1934 which are based on the use of the M-F-N clause in its unconditional form, has made a determined effort to apply the principle of non-discrimination to a wide range of commercial dealings, including allocations under exchange regulations and the quantitative regulations of imports. It remains to be seen how far this policy will prove effective in practice.

The Future of the Most-Favoured-Nation Clause

Historically, it would seem that the unconditional M-F-N clause has been more a symbol than a cause of free trade in times when the trend in favour of free trade was in any case strong and that, in so far as quantitative regulations are now the deciding factor, it has ceased to be effective even in preventing discrimination. If a general attempt were to be made to return to free trade on the nineteenth century model, it would, of course, be a mistake to drop unconditional M-F-N, as it would automatically contribute to an end that could otherwise be obtained only at the price of duplicating negotiations. If, on the other hand, the most promising policy appears to lie in arriving at freer trade by slower stages and within definite geographical limits, the general and unconditional form of M-F-N would either have to be jettisoned to permit the formation of economic blocs, or it would have to be amended, or much less rigidly interpreted in order to serve the same end. In the present circumstances, unconditional M-F-N has the advantages of continuing to secure non-discriminatory treatment in matters other than imports, and it is highly and perhaps increasingly important that its influence in this connection should be perpetuated. In the second place, some form of M-F-N guarantee would probably be necessary within any economic bloc in the same way as it is tacitly, though not expressly, maintained within the British Commonwealth. Against this must be set the fact that for many years the retention of unconditional M-F-N has probably acted as much as a deterrent as an assistance to the generalisation of tariff concessions, while the growth of economic blocs and of the use of quantitative systems of trade regulations have very severely impaired the efficiency of unconditional M-F-N as a preventive of discrimination. The advantages of retaining unconditional M-F-N in its present form, in which must be included the dislocation involved in any transition, certainly appear to be outweighed by the disadvantages. No one can put very high the prospects of a world-wide revulsion from a strict control of

trade, in which the retention of unconditional M-F-N would be useful. It seems probable that more could be achieved by a gradual extension of the area of relatively free trade through the expedient of the formation of economic blocs. Arguments have been produced in an earlier chapter to show that an extension of the Ottawa bloc in this way is, in fact, a growing economic necessity for the British Commonwealth.

In the present circumstances, the continued existence of a network of unconditional M-F-N agreements makes it difficult to form economic blocs, as the Ouchy example shows, except where a legal loophole exists, as in the case of the preferential regime within the British Empire, or where M-F-N can be defeated by the use of quantitative measures of control which fall outside its effectual scope. Developments on the latter lines are not, however, by any means satisfactory or altogether capable of achieving their objective. In theory, the difficulty can be overcome (*a*) by adopting the conditional form of M-F-N clause, (*b*) by seeking to secure the extension of the recognised exceptions to M-F-N such as would permit the formation of blocs within a still existing, though further impaired, M-F-N structure, or (*c*) by dropping the M-F-N clause from commercial treaties altogether. In practice, the first step could only be taken with hesitation in view of the chequered history of this type of instrument in the past, which, in addition, makes official opinion extremely adverse to it. The practical difficulties of administering the conditional form without running into serious tariff disputes are very great, as past experience shows. In a sense, the development and extension of a tariff bargaining policy may be said to be making the adoption of conditional M-F-N inevitable in the long run. But the existence of practical difficulties deserves to receive adequate attention whenever the possibility of adopting conditional M-F-N is under discussion as a logical development out of the present situation.

To the extent that quantitative methods of trade regulation would make nonsense of either type of M-F-N, there is a case in favour of complete abolition. But complete abolition would endanger valuable M-F-N rights in fields other than import trade. Moreover, it is difficult to see how, under any system, discrimination in the allocation of import licences can be prevented if the government of the importing country has made up its mind to discriminate.

The solution of attempting to secure further agreed exceptions is, on balance, the most attractive, but it would require a considerable measure of international agreement before it could be implemented. It would seem on the face of it somewhat absurd to recognise special arrangements between Spain and Portugal, on the one hand, and of Portugal and Brazil, on the other, as potential exceptions to existing M-F-N obligations, and to refuse similar recognition to a proposed arrangement between Belgium and Holland. Yet this is the position which H.M. Government appears to adopt. It would, in fact, be possible to find other economic groups which have as much claim to be regarded as bound by historical, geographical and ethnical ties as those which are already recognised as legitimate exceptions to M-F-N. Apart from this, there is the fact that the British Commonwealth has, by means of what many may be forgiven for regarding as a legal loophole, created a special regime covering a very substantial proportion of the world's trade.

It should not be impossible to encourage a more liberal view among governments regarding preferential arrangements between contiguous or closely associated countries, provided that such arrangements were achieved by the lowering of trade barriers within the group and not by an increase in barriers against the outside world. An effort in this direction has been made by the United States acting through the Pan-American Union. In July 1934 the draft of an agreement "to refrain from invoking the obligations of the M-F-N clause in respect of certain multilateral conventions" was deposited with the Pan-American Union for the accession by signature of any State. Any signatory to this agreement binds himself not to invoke obligations under the M-F-N clause in the event of trade concessions being made under multilateral conventions which are "of general applicability, which include trade areas of substantial size, which have as their objective the liberalisation and promotion of international trade or other international economic intercourse, and which are open to adoption by all countries." The text of the agreement is given in full in an appendix.* Signatories to this agreement would in effect bind themselves to overlook their M-F-N rights in the case of conventions such as the proposed Ouchy agreement. The American Government has, therefore, given an admirable lead to the attempt to find a method of liberalising trade by stages without entirely destroying the existing framework of commercial treaties. The British Government should seriously consider the advisability of following this lead. Apart from the United States and certain other members of the Pan-American Union (Panama, Cuba, Nicaragua, Guatemala and Colombia), Belgium and Greece have adhered to this agreement.

The Economic Shortcomings of Bilateral Trade Pacts

As far as British policy is concerned, it may, at any rate, be doubted whether much progress remains to be made by a policy of hard bargaining with foreign governments in bilateral negotiations. Such a policy has been followed during the past five years, and at the outset, this country held a strong hand of cards in the shape of the new British tariff, an unfavourable balance of payments, the depreciation of sterling, and the desirable amenities of the London financial market. In an appendix, a short account is given of the trend of British trade with the chief countries with which agreements have been concluded since 1933. Owing to the peculiar strength of Great Britain in view of the circumstances mentioned above, H.M. Government was in the position virtually to insist on certain concessions. Most of the cards held then, however, have been played by now, and it is difficult to see how much further progress can be made on behalf of British exports through bilateral negotiations unless we are prepared to apply the principle of reciprocity to the point of making substantial concessions in the import market. Moreover, the openings obtained for export trade in any one country through bilateral negotiations may on some occasions represent an advantage which is mainly illusory if it is based on the exclusion of a former supplier. In such an event, the displaced foreign competitor may rapidly re-emerge in other "free" markets, where he is not susceptible to control. The progress of the British export trade in coal in recent years is a case in point. The market for British coal in the Scandinavian countries was considerably enlarged by the agreements concluded in 1933 and 1934 which involved the cutting down by those countries of coal imports

* See Appendix II.

from other leading coal exporters, notably Germany and Poland. At first sight this appeared to be a substantial gain for the British coal export trade, and the export collieries of Scotland and the North-East coast have continued to benefit. It was hardly a coincidence, however, that Polish and German competition was immediately much intensified in the Mediterranean and other markets, where it was subject to no control by trade agreements and the gains of Scotland and the North-East coast have proved in course of time to be largely the losses of South Wales, which is more intimately connected with the newly-invaded markets.

A somewhat similar situation seems to be arising as a result of the decision of the British Government to raise a levy on imports of meat from foreign countries. The levy, although primarily for the purpose of assisting the British farmer, is intended to benefit Dominion producers at the expense of foreign producers in the British market. It is, in fact, having that effect, but at the same time it is driving Argentine producers to compete more intensively in Continental markets in an attempt to offset their losses in the British markets, so that the consequences for Dominion producers are not wholly beneficial.

The Necessity for Supplementary and Parallel Negotiations by Industry

Such dangers lurk in the path of negotiators of any trade agreement and are often difficult to avoid, but much can be done in this direction if official negotiations between governments are reinforced by unofficial negotiations between the industries concerned and if government-made trade agreements are concluded in harmony with international agreements between industries. In the case of coal, the formation of an International Coal Cartel has often been advocated, and there is no doubt that if one had existed at the time of the conclusion of the Scandinavian trade agreements, and had seen the danger, it could have done much to prevent the diversion of competition which actually occurred. A small step towards this objective was actually made with the conclusion of an arrangement with Poland towards the end of 1934, when it was agreed in principle to relate Polish and British coal exports on a pre-determined basis. The agreement has not, however, in the absence of German co-operation, proved capable of helping the situation in the international market materially.

The same tale might be repeated, with variations, in the case of other commodities. The danger will always be present to some extent, but there is good reason to believe that it could be reduced by improvements in the technical procedure of commercial bargaining. Before entering into negotiations for a new trade agreement, it is the normal practice of H.M. Government to make a formal request to industry to submit its views on the concessions which should be asked for. The nature of the replies received from each branch depends largely on the degree of organisation within the industries concerned. Highly-organised industries are in a position to insist not only on being consulted, but also on having their observations at least to some extent put into practice. But since, in bilateral bargaining, there is usually a limit to the number of concessions that can be obtained, they will usually be insufficient to "go round." In these circumstances it is not unnatural that those industries which are able to exert most political pressure should on most occasions bear off the richest prizes. For the purpose of improving the efficiency of the government in trade negotiations, so that it can obtain the concessions that are really wanted, it is

essential that the average degree of organisation of industries should be improved with a view to improving their ability to produce a reasonable and coherent case.

The first aim of better industrial organisation should then be to secure better representation of industrial views to the government as a preliminary to trade negotiations and, more generally, to improve the means of contact between the government and individual industries. At this stage it would then become possible, subject to government control and in accordance only with general lines of policy laid down by the government, to encourage international negotiations between industries. There are already a number of cartels and similar agreements in operation, but though their existence is often known, the full details are not usually revealed. In some cases, the government is forced to turn a blind eye to certain features of these agreements, particularly if they would look awkward on paper in a trade pact. In other cases, the government has allowed supplementary and parallel negotiations between industries, partly because they assist government negotiations, particularly in securing trade concessions by the alteration of quotas, and partly because they cannot always be prevented. Supplementary and parallel negotiations between industries were largely made use of in concluding the Ottawa agreements. In some of the bilateral negotiations with foreign countries also, the government has encouraged the conclusion of purchase agreements between groups of British exporters and groups of foreign consumers. These seldom appear on paper in the trade agreement itself and do not always require any special arrangements to enable them to be carried out. For the most part, they have merely represented attempts to divert additional trade to the United Kingdom by informal methods. Such agreements must be distinguished from more ambitious arrangements for the allocation of markets among competing producers.

In the present circumstances, the relation of government negotiations to private industrial negotiations is unsatisfactory. There is no doubt that the latter are growing in importance, in spite of inadequate organisation in industry, and in many cases represent a better means of regulating trade than government negotiations alone. On the other hand, there are grave dangers in encouraging industrial negotiations indiscriminately and without proper safeguards for public interests. Hence they must be brought under the control of government and co-ordinated with the larger requirements of national policy. But as this is a large subject, it has been left for detailed discussion to a separate chapter.

IV. INTERNATIONAL INDUSTRIAL AGREEMENTS

Summary

(i) In many countries, and particularly the United Kingdom, there is an instinctive public dislike of cartels, arising from the belief that they are necessarily predatory and injurious to consumer interests. This belief has been in a large degree justified in the past, and is largely responsible for the secrecy with which cartel agreements are habitually surrounded.

(ii) There is evidence, however, that the technique of industrial control is evolving slowly in such a way as to exercise a modifying and beneficial influence upon cartel policy. Comparison, for instance, of early schemes of restriction for rubber and copper with recent schemes reveals a better appreciation of the fundamental laws of supply and demand on the part of producers. Moreover, certain schemes of restriction of raw material production have received the goodwill and concrete support by legislation of governments.

(iii) There are two main types of cartel. The first sets out to maximise the earnings of producers by the adjustment of output to demand, the second to maximise the earnings of producers by the division of markets at a given price level. The two types are not conflicting and are often combined. The first type often originates in times of slump when prices are low and depressed by large stocks, but becomes vulnerable in times of boom to the disruptive pressure of increasing outside production. The second type often originates in times of boom and is subject to internal disruptive pressure in times of slump when individual participants are tempted to maintain their turnover by lowering prices below those agreed upon.

(iv) Experience of the drastic consequences in the past of defying the laws of economics, and of the commercial success of firms which have respected them by pursuing a moderate price policy, is exercising a moderating influence upon cartel policy. Producers are realising, from the aspect of enlightened self-interest, that it pays to maintain the goodwill of consumers at all times. In so far as most cartels nowadays make provision for research and development activities with a view to increasing the consumption of their product on technical grounds, the importance of maintaining a moderate price policy, in order to reinforce technical suitability by an appeal to consumers on economic grounds, is gaining headway. Progress in this direction might be more rapid, if increased publicity could be secured for cartel activities in order that the consumer's point of view may be presented more forcefully and frequently. Increased enlightenment in cartel policy should, at any rate, tend to ensure a longer life for cartel agreements, since the avoidance of excessive booms and slumps will remove the causes of the disruptive forces mentioned above.

(v) The technique of cartel management is also improving with increased skill in devising a binding constitutional framework and increased flexibility in operation. The latter development is signified by the growth in popularity of export control as opposed to production control. Export control has certain dangers for consumers in markets where there is no indigenous producer, but by reserving home markets for home producers removes one of the disruptive forces latent in any scheme of rigid production control.

(vi) The technique of trade control by cartels, if based upon a proper understanding of economic laws, can contribute to the orderly expansion of trade and perhaps help to eliminate excessive fluctuations in economic activity. It should be the function of governments to help the development of this process on sound economic lines. Governments should already be exercising their authority in this direction in fulfilment of their function of protecting consumers, though they have not always done so. But apart from their undoubted constitutional right to intervene, governments can offer to producers a substantial inducement to co-operate with them. Provided that industrial agreements are conducted and concluded with the approval of governments and exposed to the critical light of public opinion, there is a reasonable case for giving them statutory force by means of government action in the distribution of import quotas and the adjustment of tariffs. The beginnings of a system of this kind are observable in the appointment of the Import Duties Advisory Committee in the United Kingdom and the Tariff Boards in the Dominions, while a precedent has been created for government action in this country by the assistance given to the British iron and steel industry in negotiating with the International Steel Cartel. Official bodies cannot, however, initiate a development in this direction. The initiative must come from industry, and to that end the internal organisation of industry needs to be improved.

(vii) The growth in the importance of international industrial agreements as a factor influencing the development and direction of trade may soon, in fact, compel government intervention. The growth of cartels is the logical result of evolutionary changes in the structure of industry itself, and incentives acting in the direction of the formation of cartels are growing. Intervention is necessary if only to preserve the efficacy of official trade negotiations and trade agreements between governments. These cannot always, in the present circumstances, take notice of the existence of cartel agreements, with the result that the provisions of official and industrial agreements often conflict, to the detriment of one or the other and at the cost of infinitely increasing the frictional forces present in the mechanism of trade. But, above all, government intervention is necessary in the interests of consumers, and in any attempt to increase the scope of industrial agreements in international trade, the possible dangers of producer control must be frankly acknowledged and met by provision for effective public supervision.

(viii) The cartel machinery is particularly suitable for the development of markets on a limited local basis, subject to control by the government of the consuming country. It would be especially useful in securing the orderly development of new and

secondary industries overseas in a manner which would minimise the dislocations caused to existing producers.

(ix) Summary details have been given of the character, scope and operations of the more important international cartels at present in existence. From these the great current importance of international industrial agreements in relation to world trade is evident.

Public Opinion and Cartel Agreements

There is, at any rate in the United Kingdom, an instinctive dislike of international cartel agreements. This appears to arise from a belief that cartels are necessarily predatory by nature, injurious to consumer interests, and contrary to that practical appreciation of the merits of free competition which exists in some degree, although unconsciously, in the minds of even the most vigorous opponents of free trade in principle. In fact, competition has probably always been less perfect than current opinion has held, even when *laissez-faire* was more complete than to-day, and its imperfections have been growing visibly in recent years. As a consequence of this general public attitude, cartel agreements have, in the past, usually been arranged and maintained in conditions of strict secrecy. Such secrecy is inevitable where the agreement is designed definitely to evade legislation of the "anti-trust" type, but is due in other cases merely to fear of an unfavourable public reception. In the latter case, secrecy concerning details merely encourages the general public to imagine the worst.

The Change in Producers' Outlook

It must be admitted that certain international cartels and restriction agreements in the past have in a large degree justified the verdict of public opinion. The Stevenson scheme of rubber restriction and Copper Exporters Incorporated, both of which incurred opprobrium on an international scale during their lifetime, eventually broke down on their demerits. Moreover, some of the agreements at present in existence would probably be unable to survive an ordeal by publicity, which they have so far been successful in escaping. There is, however, reason to believe on general grounds that the technique of industrial control is slowly evolving in a way which is exercising a modifying and beneficial influence upon the policy of cartels. The present scheme of rubber restriction shows, for instance, a degree of moderation and enlightened self-interest which is attributable to the failure of the greedy policy pursued in the earlier scheme

The copper producers also, who were, early in 1937, in a position to squeeze the market in the manner of their predecessors, chose the wiser course of suspending the restriction of output altogether and are understood to be far from entirely satisfied with the recent high prices of the metal and the probable effects on consumption in some of its more competitive uses. The liberalisation of the restriction scheme for tin within the last twelve months also indicates a better appreciation among producers that policies of pure depredation are as injurious to producing interests in the long period as they are to consumers in the first instance. It is also significant that a number of recent agreements for the control of raw material production—for instance, the schemes for rubber, tin and (as far as it went) wheat—are not only recognised by the governments concerned, but are

actually enforced, or supposed to be enforced, by legislation. Moreover, in the recent example of the accession of the British iron and steel industry to the International Steel Cartel, H.M. Government actually put strong pressure on the industry to induce it to come to an agreement. Although, in this instance, the policy pursued in the actual negotiations was not as imaginative as the best interests of the industry or of the public demanded in the long run, an important precedent was created for tariff manipulation by the Government in support of private negotiations, as well as for a wider, though still insufficient, degree of publicity and public control for such agreements. In this particular case, the British steel industry quite properly sought to maximise its market, but did so by concentrating upon the home trade rather than by taking a larger share in the Cartel export trade and permitting a larger import to this country of cheap semi-manufactured steel products. These latter cannot in all cases be produced by the British industry on terms of equal competition with Continental producers, but are essential to the successful working of a large body of British steel consumers (such as sheet and tinplate manufacturers and the motor industry) who, in their turn, are in some cases highly dependent upon the export trade. Moreover, the virtual closing of the British market to foreign semis has tended to encourage foreign manufacturers of semis to undertake fabrication into finished products, which they did not do on so large a scale before, in order to find a new outlet for their production. This new output has tended to compete with British exports of certain finished steel products. The argument here is one of degree, since it is fully admitted that the prosperity of the heavy section of the steel industry is essential to the industry as a whole.

Cartels in Boom and Slump

It is possible to distinguish two main types of cartel agreement. The first type is, or should be, mainly concerned with the maximisation of the earnings of producers over the long period by the regulation of output to demand. The second type sets out to maximise the earnings of producers by the division of markets at a given price level. The first, therefore, which is generally applied to commodity production, while affecting the total volume of goods coming on to the market, does not affect the freedom of the producer to sell where he chooses. The second type may make no provisions for regulating total output and therefore total consumption, but may determine broadly where each of the participating producers is allowed to sell. The two types are not, of course, conflicting; they can easily be, and sometimes are, combined in a single scheme.

Many cartel agreements, particularly of the production-control type affecting commodity production, originate in times of slump when prices are low, competition is intense and the recovery of prices to a level remunerative to producers is prevented by the pressure of an output in excess of current demand. Many cartel agreements in the past, having assisted the industry concerned to weather a slump, have broken down under the stress of temptations in the subsequent boom. Having gained control of the market, and used it to restore a remunerative level of prices, producers have been unable to resist the temptation to go further and help themselves at the expense of consumers. In so doing they have usually hastened their own downfall. Increasing prices have encountered the resistance of consumers and stifled the natural expansion of consumption. Producers outside the agreement, or new sources of production, have been encouraged by the

prospect of high prices and have eventually, through increasing output, broken the control of the cartel over the market. In other words, cartels which set out to control the market through control of production, have been vulnerable in times of boom to outside pressure.

On the other hand, cartels which set out to divide markets on the basis of a given price level, would seem to have been more vulnerable in times of slump, and are more vulnerable to inside pressure—that is to say, bad faith on the part of members. As the slump begins to affect turnover, cartel members may be tempted surreptitiously to undercut the official price in order to maintain their own sales; this internal pressure frequently causes disruption sooner or later.

Cartel Policy

But, as has been mentioned already, not only is the technique of cartel administration tending to improve, but the mentality of many producers is changing rapidly for the better. Many producers to-day have a far better appreciation of the fundamental economic factors affecting supply and demand in the long period and their reactions upon producer interests. The authorities controlling a cartel, in so far as it is in the nature of a monopoly, have two courses open to them—either to sell a comparatively small quantity at high prices and a high rate of profit or to sell at the lowest prices possible and attain the maximum consumption. There is no doubt that it is the latter policy which is in the best interests of all concerned.

This growing enlightenment is largely the result of experience—both of the drastic consequences in the past of defying the laws of economics and of the commercial success of those firms and industries which have respected them. The mentality of producers would probably develop further in this direction if cartel agreements were habitually the subject of wider and more detailed publicity than is accorded to them to-day. An increasing number of cartels nowadays, however, are already making successful provision for research and development activities with a view to increasing consumption in the long period by technical advances in the application of materials. Progress by this means can only be sustained if research and development are accompanied by a moderate price policy, in order that technical suitability for new applications may be accompanied by an appeal to consumers on economic grounds. The success achieved by such firms as International Nickel and Courtaulds, by instituting expansionist price policies in the industries which they dominate, is doing much to enhance the wisdom from the point of view of pure self-interest, of respecting the fundamental laws of economics, and of pursuing a price policy which tends to maximise consumption in the long run.

This outlook, if it could be generalised—and, indeed, it is spreading fast—would go some way towards removing the destructive pressure from outside upon certain types of cartel in times of boom. For if a sufficiently broad view is taken by cartel administrators of consumption possibilities in regulating output, an extravagant boom will never be allowed to develop, and the destructive pressure from outside will not grow so readily. Furthermore, if extravagant booms can be avoided by the exercise of foresight, within the limits of human fallibility, it should also be possible to avoid at any rate the worst extremities of the subsequent slumps.

Cartel Administration

On the administrative side, also, the technique of cartel management is undoubtedly improving. It has always been difficult to devise a constitutional framework for cartels which is legally binding on its members in practice, or to enforce at law the penalties that may be prescribed for evasions of the rules. Certain recent agreements appear to have gone some way towards getting over these difficulties. Moreover, if an industrial agreement can be shown to be in the public interest, or not injurious to it, the promoters have a good case for asking the Government to assist them in giving legal force to it. This a government can easily do, since it has all the necessary resources, and the British Government has already co-operated in this way, as has been seen.

In the second place, there has been a notable tendency in recent years to eliminate the rigidity in operation of some of the earlier schemes, and therefore to remove the incentive to members to break them, whatever their legal ability to do so. One manifestation of this is the trend in favour of export control as opposed to production control. Production control involved interference with the activities of an industry in its home market, and many schemes have broken down in the past because manufacturers have been compelled to share an unforeseen expansion in their home market with foreign competitors. The modern tendency appears to be increasingly to leave the home market to home industry, and to extend control only to the international export market. Control of exports can be less restrictive by nature and less injurious to consumption than control of production. In most cases, export control tends to consist merely of arrangements for the allocation of export markets, geographically or qualitatively, or the fixing of the percentage shares in the total "free market" of the cartel members. This system gives rise to certain dangers, first, of exploitation of consumers in the closed home markets, and, second, of exploitation of free markets which have no domestic source of production. This point needs the attention of governments in the interests of consumers, and will be returned to later. The aim, in the first instance, of such arrangements is the maintenance of selling prices and the delimitation of spheres of competition. Ultimately the effect may be to facilitate the lowering of production and selling costs and the expansion of markets by reduced selling prices, made possible by the concentration of efforts.

The Extension of International Industrial Agreements Under Government Control

We believe, therefore, that the technique of trade control by cartels, if based upon a proper understanding of economic laws, can contribute to the orderly expansion of trade and perhaps to the elimination of excessive fluctuations in economic activity. The tide of progress is already setting strongly in the direction of the formulation of schemes of international industrial control on sound economic lines. But it cannot be sufficiently emphasised that progress in this direction can only be ensured by the active intervention of governments in order to secure that agreements should not take a form detrimental to consumers. Governments are already in a position to insist on this point, since one of the major responsibilities of government to the community in the economic sphere is the protection of consumer interests from exploitation by producer groups, although this function is not now fulfilled as actively as might be desired. Apart from the undoubted

constitutional right to intervene, however, governments can offer a substantial inducement to producers to co-operate with them when making agreements. Provided that agreements are conducted and concluded with the approval of governments, and exposed to the light of public opinion, there is then a reasonable case for giving them statutory force by means of government agreements in the distribution of quotas and the level of tariffs for so long as they continue to fulfil the conditions essential for safeguarding consumer interests. The beginnings of a system of this kind are already observable in the setting up of Tariff Boards in the Dominions and the Import Duties Advisory Committee in the United Kingdom, while the conduct of negotiations between the British steel industry and the International Steel Cartel has, as noted earlier, introduced a precedent for the intervention of the Government, both to support manufacturers in negotiation and to watch the interests of consumers.

Official bodies, however, have no power to initiate negotiations, and, in the absence of pressure, such as the British Government put upon the iron and steel industry, the initiative has not yet been very readily forthcoming from industry itself. In fact, the few occasions on which British industrialists have shown any willingness to co-operate effectively have usually been for the purpose of making applications to the Import Duties Advisory Committee for increases in the British tariff. The relative ease with which they have been able to compose their differences for this purpose, strengthens the belief that if the long-term requirements of British and Dominion export trade, and the somewhat intangible, but nevertheless important equity which both enjoy in a much increased volume of international trade in general, were more readily appreciated, co-operation in a more constructive cause would not be difficult to achieve.

Growing Importance of Cartels

Apart from the case for increased government intervention in the conduct of international industrial agreements for broad economic reasons, the growth in the importance of international cartels as an influence on world trade may soon compel governments to intervene increasingly, if only to preserve the efficacy of their own commercial agreements. Cartel agreements have increased very much in importance in recent years and have come to cover a significant proportion of the world's production and trade. This will be evident from the summary account of the scope and nature of the activities of some of the principal cartel agreements now in existence which appears later in this chapter.

The growth of this development is due for the most part to the evolution of the industrial structure itself. The growth in the size of individual businesses and the increased internationalisation of industry has made the physical task of conducting cartel negotiations easier, even if the difficulties of reaching an agreement have not been appreciably diminished. In some cases, difficulties of technical research have made the conclusion of cartel agreements almost essential in the interests of progress. The international patent position in certain new processes, such as the hydrogenation of coal, on which companies in a number of countries may be working simultaneously on not dissimilar lines, often compels at some point the pooling of resources if the major efforts of the organisations concerned are not to be diverted from their legitimate function of pure research to expensive

patent litigation and a search for means of evading blocking patents elsewhere. Where, in addition, manufacturers are associated with each other to some extent by financial participation or joint subsidiary interests, as is increasingly happening, the incentive towards collaboration is still further strengthened. On this account alone, the growth of cartel agreements would appear to be an inevitable development arising out of wide changes in industrial structure, and one which is likely to increase in importance.

Increased intervention by governments in the business side of export trade may also encourage the conclusion of international industrial agreements. Export industries in many countries to-day are deliberately subsidised, whether directly or indirectly, by their governments. Export industries in countries where government assistance is not forthcoming can seldom hope to stand up indefinitely to competition of this sort—since the pockets of governments are deeper than the pockets of private firms. When subsidies begin to exercise a decisive influence in the international trade in any commodity, therefore, there must be a strong incentive to unassisted producers to endeavour to preserve the *status quo* by coming to an agreement with their subsidised competitor. In the United Kingdom, the coal and shipping industries illustrate this tendency, though neither has yet been successful in reaching an agreement with competitors on a large scale. The shipping industry has, however, succeeded in stabilising freight rates on certain routes, and rates in the North Atlantic passenger traffic are subject to international control. The British coal industry also concluded an agreement with Polish coal exporters, fixing the relationship of their respective export shipments on a percentage basis, although this agreement did not prove the success which had been hoped.

Interference with Government Commercial Agreements

The growing importance of international industrial agreements as affecting the volume and direction of trade in certain goods has already begun to conflict increasingly with the efficacy of existing commercial agreements between governments. It is not always possible for existing cartel agreements to be taken into account in the conclusion of official trade agreements, since, officially, they sometimes do not exist. It is not, therefore, surprising that when there is no co-ordination, the provisions of official agreements should sometimes conflict with the provisions of industrial agreements. In such cases, traders will adhere to whichever agreement profits them most. If this happens to be a cartel agreement, elaborate, and sometimes ludicrous, devices are employed in order to circumvent official provisions. In some cases, arrangements made between governments conflict with arrangements already in existence between industrialists, or their future intentions. In other cases, the concessions won by governments in hard bilateral bargaining may prove to be worthless owing to the inability of the industries concerned to take full advantage of them, owing to previous private arrangements. It is to nobody's advantage that this should continue. Governments should in the first instance interest themselves actively in any industrial agreements that are made. They should, in the second place, take note of them in any negotiations of their own. And, in the third place, government trade agreements should be negotiated simultaneously with, and co-ordinated with, parallel negotiations betwen industries. The responsibility of governments in this connexion is threefold—to fulfil their function of preventing the exploitation of consumers

by monopolistic practices, to secure the improved working of the productive and distributive machinery of industry, and to preserve the efficacy of their own external commercial arrangements. This technique is particularly worthy of consideration at the present time, in view of the difficulties surrounding the application of traditional commercial policy to-day, and the changed economic background against which international trade must now be conducted. These factors have been fully examined in previous chapters. The technique is not entirely new, since negotiations between industrialists and the conclusion of unofficial purchase agreements accompanied both the Ottawa Agreements and the subsequent series of bilateral agreements between the United Kingdom and various foreign countries. But it needs to be more fully developed.

Government Safeguards to the Consumer

It remains to be seen what changes would be involved in practice in the development of this method of commercial negotiation, and to what additional uses it could be put. Profound modifications would be required in the aims, character and scope of international industrial agreements as compared with certain examples in the past. There is inevitably the danger in encouraging industrialists to arrange their own affairs that producers should be tempted to use the control which cartel agreements would give them for the purpose of exploiting consumers. As has already been mentioned, there is reason to believe that many producers are already taking a more enlightened view of their responsibilities and of their own self interest. But the temptations are still present, and past history shows that they are not easily resisted. Adequate government control and wide publicity should, however, prove capable of removing this danger, while, as has already been seen, governments are well able to insist that their wishes are respected, if only because of the legislative assistance which they can lend to industrial negotiations. If the government's power is used, together with the additional protection of full publicity, to safeguard consumer interests from the exploitation which they undoubtedly suffer through some of the secret agreements in force to-day, it is believed that the practical advantages to be achieved through the regulation of international trade by these means would go some way towards outweighing the traditional suspicion with which cartel agreements are regarded. As regards the protection of consumers in markets where local production is negligible or non-existent, special care would have to be taken since such countries will be understandably suspicious of cartel agreements. Hence not only is it necessary that an expansionist cartel policy be pursued and that the government of the consuming country be particularly watchful of consumer interests, but the governments of the producing countries will also have to be unusually vigilant and will have to convince the governments of consuming countries, probably by taking them into their confidence, they they are mindful of the common interest.

Cartels in Overseas Markets

One of the principal hindrances to a greater volume of international trade, and in particular to a greater volume of British manufactured exports, arises from the vexed question of secondary industries. This question arises particularly in Dominion markets. The proportions in which such markets may reasonably be supplied with any particular

line of goods by Dominion industries, British export industries and foreign export industries, respectively, is a question which the three parties concerned should be encouraged to decide in detail for themselves, subject to general government control. The final approval of the Dominion government concerned would only be accorded after taking fully into consideration the interests of its consumers. And provided that the government was satisfied, there would be no obstacle to the enforcement of such an agreement through ordinary measures of tariff, quota and exchange policy.

Such cartel agreements could be applied in any country, and not necessarily only those which possess secondary industries. It should be emphasised that they need not be complete in order to be effective and useful. That is to say, they can be made to apply to any one market or group of markets, without in any way affecting the freedom of competition of the parties concerned elsewhere. It is, however, probable that local agreements, if successful, would lead to the setting up of some more general system of control. But in dealing with any country—and this applies particularly to those consuming countries which possess no indigenous manufacturers of the product concerned—it is vital that the goodwill of the government should be cultivated and its approval secured for the terms of any agreement.

The Scope of Existing Cartel Agreements

In order to emphasise the extent to which the existence of international industrial agreements is already affecting the development and direction of trade, the following pages have been devoted to a summary description of the scope and activities of some of the more important cartels now or recently in operation. The details given are believed to be accurate as far as they go, but considerations of space prevent as full treatment as would be desirable of the repercussions of these agreements on market conditions. Moreover, the details of many agreements are closely guarded and have never become publicly known. This arises particularly in the case of cartels with which producers in the United States are co-operating. Owing to the existence of anti-trust legislation, United States firms are usually unable to adhere formally to cartel agreements, although they are nominally in a position to do so as far as exports are concerned. Their co-operation is therefore often secured through the informal machinery of "gentlemen's agreements," the details of which are necessarily vague and usually private. For these special reasons, little statistical data on the allocation of quotas, etc., is usually available.

Aluminium

The Alliance Aluminium Compagnie of Basle, which includes Germany, France, United Kingdom, Canada and Switzerland, was formed mainly for the purpose of controlling the price and stock position. With this end in view, the company took over the stocks of the individual producers, and during 1935 the increased demand enabled stocks to be reduced from 140,000 metric tons at the end of 1934 to about 100,000 metric tons at the end of 1935. Since then the stock position has not, of course, given any difficulty. The company regulates production in the adhering countries by means of production quotas, and also fixes the price from time to time. Considerable difficulties have, however,

been encountered, mainly owing to demands by Germany for permission to increase output capacity (permission for an increase to 55,000 metric tons was given in September 1934, but further increases have taken place since then and actual production in 1936 is estimated to have been 95,000 metric tons, a figure only slightly below that of the United States and far higher than any other country). The heavy subsidies paid by the German Government to enable sales to be made at RM. 1,000—1,200 per metric ton against a production cost of about RM. 1,400 and a previous selling price of RM. 1,600 have also been an important factor. An unsuccessful attempt was made in 1934 to form an agreement regarding the production of semi-products between rolling mills in Germany, Great Britain and Switzerland.

The price policy pursued by the cartel has, on the whole, been an enlightened one, and in contrast to the steep rises which have occurred in the prices of most non-ferrous metals in recent months, the price of aluminium ingots has been maintained since the end of 1932 right up to the present at £100 per ton.

The ramifications of the Alliance company are very interesting in relation to the general question of the scope of cartels, as it controls, through its British subsidary Alliance Aluminium Holdings, two producing companies, International Aluminium Co., Ltd., and Aluminium Corpn., Ltd.

Coal

At the end of 1934 an agreement was concluded between the Mining Association of Great Britain and the Polska Konwencja Weglowa for the regulation of British and Polish coal exports. Though full details of the agreement have not been published, this is believed to have established the ratio of 79 to 21 between British and Polish exports, and is understood to operate nominally until the end of 1937. It has not, however, been a success and already in the first half of 1936 the Polish were strongly undercutting the British exporters, e.g. on the Egyptian market. It was hoped that this agreement might form the basis of an international coal cartel comprising in addition to Great Britain and Poland, Germany, Belgium, France, Holland and Czechoslovakia. So far, however, although informal talks were in progress in the latter part of 1936, nothing has transpired. The question is complicated considerably by the extent to which other countries, particularly Germany and Poland, have increased their share in world markets recently by subsidies. Roughly speaking, the proportions in the total export trade held by the chief exporting countries in 1936 were Great Britain 50 per cent, Germany 33 per cent, Poland 9 per cent, Belgium 5 per cent, and Holland 3 per cent. It is emphasised in British circles, however, that any agreement which stabilised quotas on the basis of present sales would be very unfavourably regarded, and this is one of the reasons why a government export subsidy, combined with negotiations for an international cartel, and to be used only as a bargaining weapon against other countries subsidising their exports, is being urged in responsible quarters. The international coke agreement which involves much the same countries may assist matters.

Coke

Attempts to organise the international coke market may be said to have started in October 1933 with a visit by British coke producers and exporters to Scandinavia with the

object of achieving closer co-operation and enlarging British coke sales. In March 1934 a meeting was held in London, attended by representatives of Great Britain, Germany, Belgium and Holland, to discuss the possibility of regulating markets and fixing export prices. Various difficulties were, however, encountered, such as that of arranging for the liquidation of German stocks, and only a vague "gentlemen's agreement" between Great Britain and Germany regarding prices on the Scandinavian market resulted. The whole question was reopened in the first part of 1936, when conditions were more favourable, and in July 1936 the International Coke Association was provisionally formed by coke exporters in Germany, Great Britain, Holland, Poland and Belgium. Export quotas were allotted as follows: Germany 52.3 per cent, Great Britain 21 per cent, Holland 17 per cent, Belgium 7 per cent, and Poland 2.7 per cent. Fines were imposed for exports in excess of these quotas, but these were comparatively light for small excesses, increasing rapidly as the difference rose. A minimum export price of 19s. 6d. per ton f.o.b. was fixed for all countries except Belgian and Dutch producers, for whom the prescribed minimum was 19s. Various difficulties, however, arose with this scheme—e.g. not all the Belgian cokeries were members of the Belgian Coke Producers' Association—and it was not till March 1937 that the cartel was finally formed with somewhat revised export quotas allocated as follows:

	Per cent of Export Market
Germany . . .	48.43
Great Britain . .	20.88
Holland . . .	17.83
Belgium . . .	9.66
Poland . . .	3.20
	100.00

Importing countries have been classified into four groups, and a percentage of the total trade allotted to each group. As far as the United Kingdom is concerned, a British Coke Export Sales Association was formed to administer the scheme. The United Kingdom has been divided by the Association into administrative districts for quotas, minimum prices and other matters. It is understood that the international agreement had not been formally signed by April 1937 although the chief features were already in operation, and it is interesting to note that steps are being taken to ensure its operation not only under favourable market conditions but also under possibly less favourable conditions in the future.

Copper

In March 1935 a restriction agreement was signed between copper producers in the Belgian Congo, Chile and Northern Rhodesia, controlling about 75 per cent of the output outside America. This agreement envisaged a curtailment of production by 240,000 tons, as from June 1, 1935. It also set up a statistical organisation, tried to ensure that adequate but not excessive stocks should be maintained at any time, and stipulated that the co-operation of non-participating producers should be secured.

The formal agreement which allotted standard tonnages to the three participating countries and fixed current production at 70 per cent of this standard was not signed by

the American producers, but was accompanied by a "gentlemen's agreement" with them. Under this agreement, the United States producers agreed not to sell from stock for export until the European price exceeded the equivalent of 9c. per lb. (over £40 per ton) and to limit exports of primary copper to about 4,600 short tons per month as long as non-American production remained restricted by 30 per cent. An allowance of about 3,800 short tons per months was made for exports by Customs smelters, bringing the total United States export to 8,400 short tons per month. The United States producers were given the right to withdraw from the agreement in the event of a breakdown of the N.R.A. Copper Code, but although this occurred shortly afterwards, they continued to fulfil the agreement to the best of their ability, although exports were in fact higher than the quotas.

The Canadian producers agreed to co-operate as far as possible, but the Canadian output is mainly a by-product of nickel and gold production, and has therefore been increasing rapidly as a result of the rising output of these two metals.

In spite of the loose nature of this agreement, it was fairly effective in adjusting supply to demand. No attempt was made to force up the price of copper, and as stocks diminished, the production quotas were increased to 75 per cent as from August 1, 1936, to 80 per cent as from October 1, to 85 per cent as from October 15, to 95 per cent as from November 1, and to 105 per cent as from November 5, while finally, on January 14, 1937, restriction was abandoned.

In the latter part of 1936, and in the early months of 1937, prices began to run away, partly as a result of exceptionally strong demand, but more particularly due to speculation which appears to have been based on three market impressions, none of which was very well founded, namely, that refinery capacity was insufficient to meet current requirements (which was demonstrably erroneous), that the British rearmament programme would require very large tonnages, and that the United States might import substantial quantities. There was, however, a time lag between the earlier increases in permitted quotas and the arrival of the extra supplies on the market. There is reason to believe that the cartel—in marked contrast to the old Copper Exporters Inc., who tried with such marked lack of success and injury to the industry to peg the price at 18c per lb. in 1929—were not a little perturbed by the extent of the rise in prices which they would have liked to avoid. With the abandonment of restriction in January 1937, however (which was probably announced mainly for market consumption, but had little effect in that direction), they played their last card as far as exercising a damping effect on speculative optimism was concerned, and it remained for natural economic forces—including the prospect of reopening of old and opening of new mines on a very considerable scale—to carry out their intentions. It is highly probable, however, that when conditions are further from the crest of the boom the cartel will be reformed, and it is possible to imagine that its general framework has, in fact, been preserved.

An interesting practical example of the importance of a rational cartel policy lies in the copper tube position. The consumption of copper tubes in the United Kingdom has more than doubled in the last few years, mainly owing to the great demands for domestic water services. With copper around £30 per ton, taking life into account, a very good case can be made out for the use of copper tubes. With prices nearer double that figure

there is little doubt that most of the increased consumption will be lost to other materials which have not risen so steeply in price. Hence, the desire of the copper producers to maintain a moderate level of prices is based on a sound understanding of the economic requirements of the markets.

Dyes

The international dyestuffs agreement was concluded in 1927 between producers in Germany, France and Switzerland. The agreement covered the whole German output, but some of the smaller French and Swiss manufacturers did not participate. In March 1932 an agreement was made between the cartel and the principal British producers, providing principally for territorial division of markets outside the United States. Certain Polish and Italian producers have also joined the cartel, while in the United States the General Aniline Works and the Cincinnati Chemical Company, the former having a financial connection with I.G. Farbenindustrie, and the latter with the Swiss Sales Consortium, are also members. The cartel is concerned with the regulation of export prices and conditions of sale. A "gentlemen's agreement" covering certain individual markets has also been concluded with other United States producers.

During 1935 an agreement was concluded between the German group and Japan regarding sales of indigo in the Chinese market. The international cartel has frequently been strongly criticised by British consumers on the grounds that not only are imports into this country controlled by a licensing system but that the cartel maintains prices at an unjustifiably high level. The 10 per cent British import duty on foreign dyes which was, however, removed in 1935, gave the British consumers an additionally strong cause for complaint, but even now it is doubtful whether the position can be regarded as entirely satisfactory.

Electric Lamp Bulbs

The International Lamp Cartel (Phoebus) was formed on January 1, 1925, in order to put an end to the fierce competition resulting from the enormous increase in output capacity during the war years. The cartel controls a high proportion of the output in all countries with the exception of the United States and Canada. In order to terminate competition, prices were stabilised and quotas were allotted to individual members for sales in the various markets. Arrangements were also made whereby quotas could be exchanged or disposed of to other firms for a cash payment. It was, however, found impossible to fix uniform prices for the whole world. The system finally adopted was that the price for each market should be fixed only by those members operating within it.

Apart from the price-fixing function there is an arrangement for interchange of patents between members, and each manufacturer is required to keep his products up to a certain standard. It is estimated that the cartel controls about 95 per cent of the output excluding Canada and the United States, the principal outsiders being in Japan and Great Britain. German outsiders were recently compelled by law to join the cartel.

From the disparity in the prices of cartel members and outsiders and the considerable success of the latter, e.g. Crompton Parkinson, it is clear that the cartel makes considerable

use of its powerful position for maintaining a high level of prices. Recently, however, on account of the growth of outside production in Great Britain the Electric Lamp Manufacturers' Association (a branch of the Cartel) introduced a range of cheaper lamps without altering the price of the standard types, while still more recently the chief outside firm, Crompton Parkinson, joined the Association, whose price policy may perhaps be somewhat modified thereby in spite of the great increase in strength which must result.

Ferro Silicon

The International Ferro Silicon Syndicate of Vienna controls the sales of ferro-silicon containing over 25 per cent silicon in Denmark, Germany, Yugoslavia, Norway, Austria, Hungary, Czechoslovakia, Sweden and Switzerland. In addition, agreements exist with producers in France and Great Britain with the result that the syndicate is in the fortunate position that there are no outsiders.

In May 1935, as a result of dissatisfaction on the part of German consumers at the high prices charged by the syndicate, the Vereinigte Stahlwerke and the Deutsche Edelstahlwerke co-operated in the formation of the Ferrolegierung G.m.b.H. with the object of producing ferro-silicon. Some anxiety was then expressed regarding the future of the syndicate, but an amicable settlement appears to have been made. In November 1936 the agreement was renewed until June 30, 1937, it being considered that conditions on the ferro-silicon market were too uncertain to enable a longer view to be taken.

Glass

On April 16, 1934, an agreement was signed between the Kartell der Deutschen Hohlglasindustrie (Germany) and the Omnia Gesellschaft zur Leitung und Revision Industrieller Organisationen G.m.b.H. (Czechoslovakia) for the regulation of price and volume of exports of oil and gas lamp fittings to Belgium, Holland and Italy. Export quotas were allotted to the two participants on the basis of actual exports during the three years April 1, 1931, to March 31, 1934. The range of products covered in this case is, of course, not very important. In July 1936, after long negotiations, this agreement was extended to cover Germany, Austria, Hungary, Italy and Czechoslovakia, while the adherence of Poland was under discussion. The cartel covers prices and quotas.

In addition, makers of various other classes of glass, such as plate and sheet, are in fairly close contact internationally through company organisation, for instance through the ramifications of the Libby-Owens concern.

Granite

In June 1934 an agreement was concluded between the Sveriges Granitindustrie Export Forening U.P.A. and the Granitexportorenes Forening for the regulation of granite exports from Sweden and Norway. It was arranged that of the total exports from the two countries Sweden should supply 46.5 per cent in the case of facing stone, and 80 per cent in the case of paving stones, the remaining 53.5 per cent and 20 per cent respectively being supplied by Norway.

Hemp

In August 1936 a cartel agreement was concluded between French and German importers of hemp from Yugoslavia. This provided that Germany should take 80 per cent of the Yugoslavian supply available for export, payment being made through the German-Yugoslav clearing. The French importers then agreed to take their supplies from Germany in return for foreign exchange. The adherence of the French importers was presumably secured by offering lower prices than those ruling for direct export from Yugoslavia. In other words, Germany was resorting to a form of dumping in order to safeguard the foreign exchange position. This agreement since appears to have broken down, and might well have been resented both by Yugoslav exporters and by consumers in general.

Iron and Steel

The International Steel Cartel (Internationale Rohstahl Export-Gemeinschaft, or IREG), came into existence on June 1, 1933, after a previous cartel, the Entente Cordiale de l'Acier, formed in 1926, had broken down. The Entente Cordiale controlled initially the iron and steel industries of Germany, France, Belgium and Luxembourg, and was joined in 1927 by those of Austria, Czechoslovakia, Hungary and Yugoslavia. The Entente Cordiale broke down primarily because the control exercised was too rigid.

Production in the first quarter of 1926 was taken as a base, and production quotas were allotted to each participating country. A fine of $4 gold per metric ton was imposed for production in excess of the quota. Difficulties were soon experienced, however, owing to the fact that an increase in the market of one of the participating countries benefited the steel producers in other countries to an even greater extent than the domestic industry, and comparatively early in the history of the cartel Germany was demanding an increased quota on the grounds of a greatly expanded domestic demand.

On the formation of the present cartel, therefore, control was confined to exports, the domestic market of each of the participating countries being reserved to the national industry except where subsidiary agreements provided for a fixed tonnage of imports. As with the first cartel, the initial members of the IREG were Germany, France, Belgium and Luxembourg. Negotiations between the Cartel and the British steel industry were started as early as June 1933, but it was not until June 1935, after the British tariff had been increased to 50 per cent *ad valorem*, that terms satisfactory to the British producers were put forward by the Cartel and an agreement in principle was reached. This agreement came into force on August 8, 1935, and provided that the British share of export markets should be the same as in 1934, while imports into Great Britain from the Continent were restricted to 670,000 tons in the year ending August 7, 1936, and to 525,000 tons in each of the subsequent years. The agreement was for five years, with provision for a break after three years. The tonnage actually imported into the United Kingdom in the first year of operation of the agreement was 454,000 tons of semis and 421,000 tons of finished products. During the current year 1936/37, however, it is possible that the cartel countries will not ship up to the allotted quota.

At the same time, it was agreed that the British duty should be reduced to 20 per cent *ad valorem* in order to give a higher profit margin to the Continental producers on the

permitted tonnage of imports. This was combined with a licensing system which came into operation in November 1936; while on imports from non-cartel countries the same rates of duty as those imposed in March 1935 are levied. Early in 1937 the above 20 per cent duty was reduced to 10 per cent, the duty on pig iron removed altogether, and various minor tariff modifications made. It may be noted that in view of the sharp increase in the British demand, the quota for imports from the Continent was temporarily raised by 33,000 tons per month in February 1936. The imports into Great Britain from the Continent are handled by the recently-formed British Iron and Steel Corporation, which buys the imports *en bloc* and re-sells them to the Continental selling agents in this country. The average charge on "cartel" imports has been given in Parliament as 9.01d. per ton.

During 1935 the Cartel was extended to include the Polish iron and steel industry, and there is also a loose agreement between the Cartel and producers in Austria, Czechoslovakia and Hungary, who will probably become full members of the Cartel in the near future. A further agreement between the Cartel, the South African Iron and Steel Corporation and the British Iron and Steel Federation, which is not a member of the Cartel, reserves to the South African producers an annual quota of 350,000 short tons on their domestic market. Another agreement between the British Iron and Steel Federation and the Dominion Steel and Coal Corporation regulates United Kingdom imports of billets, wire rods, bars and wire nails from Canada; no restrictions were placed on United Kingdom exports to Canada under this agreement. There is also an agreement between the Cartel and steel producers in Finland, fixing the maximum output of the latter and the annual tonnage of cartel products to be imported into Finland.

The control of the Cartel covers steel ingots, semi-finished products, sheets, plates, hoop, strip, wire rods and certain rolled sections, each country being allotted a percentage quota of total exports of the various products. The marketing of each product under the control of the Cartel is centralised in a special international syndicate (a list of them is given below) which acts as a clearing house, statistical centre and governing body, and fixes prices from time to time. Sales in excess of the quota are penalised by fines. Failure to form any one of the special syndicates mentioned below gave the participating countries the right to withdraw from the Cartel. Some difficulty was experienced regarding the formation of the syndicate controlling thin sheets and galvanised sheets, but when this was overcome on August 1, 1936, the framework of the Cartel was completed. Syndicates now exist covering semis, merchant bars, sections, plates, black and galvanised sheets, tube and other strip, and wire rods.

In addition, the more specialised steel finished products are subject to separate agreements, which are listed below, together with the adhering countries. In each case export quotas and prices for the various markets are fixed by the Association, except where otherwise stated.

1. *International Railmakers Association (IRMA)*

   Austria, Belgium, Czechoslovakia, France, Germany, Great Britain, Hungary, Luxembourg, Poland and the United States.

2. International Wire Rod Cartel

Austria, Belgium, Czechoslovakia, France, Germany, Hungary, Luxembourg and Poland.

The Cartel controls prices and production of wire rods. Owing to the fact that recently the German quota has been lower than the domestic market there has been considerable agitation for conversion to a pure export cartel. Austria, Czechoslovakia, Hungary and Poland are not full members of the Cartel, no production quotas being fixed in their case. Producers, in these countries, however, have agreed to quote cartel prices and to adapt exports to the export programme of the Cartel. In return the Cartel granted certain export facilities and territorial protection. The Cartel works in close conjunction with the IWECO (see below), and by quoting differential prices and with-holding facilities for obtaining raw materials has forced certain outsiders to adhere to the latter.

3. International Wire Export Co. (IWECO)

Belgium, Czechoslovakia, Denmark, France, Germany, Holland, Hungary, Poland and Sweden.

The Cartel controls exports of iron and steel wire, plain and galvanised, and wire products, e.g. fencing, gauze, wire nails.

In August 1935 an agreement was concluded with the United Kingdom producers of wire gauze under which prices were raised and export quotas were allotted, based on the export figures for 1934. Under the raw steel cartel negotiations a five years' agreement was made fixing imports of wire and wire nails into the United Kingdom.

4. International Ship-plate Agreement

In January 1934 an agreement was concluded between the thick sheet syndicate of the International Steel Cartel, of which Great Britain was not then a member, and the National Federation of Iron and Steel Manufacturers, under which the British market for ship-plates was reserved to the British manufacturers, who were, in addition, allotted a quota of 25 per cent in export markets. In addition, the price of ship-plates was raised by ten shillings (gold) per ton. This agreement has been merged in the International Steel Cartel.

5. International Tinplate Cartel

As from July 1, 1934, agreement was reached between the tinplate producers of France, Germany, Great Britain, the Saar and the United States regarding the division of exports to free markets—Argentina, Brazil, the British Empire, China, Denmark, Holland, Japan, Portugal and Spain. On October 17, 1934, the Norwegian tinplate works entered the agreement with an annual export quota of 3,000 tons, while on January 8, 1935, the Italian works adhered with a quota of 39,750 tons. The division of the export markets was made on the following basis: Great Britain 55 per cent, the United States 22 per cent, Germany 16 per cent, France and Italy together 7 per cent.

In June 1936 it was announced that the cartel was to be prolonged for a period of two years, the German quota being increased at the expense of those of France and the

Saar. The British quota was also increased to 62½ per cent, mainly as a result of the inability of the Italian producers to continue exports in the face of sanctions. A further increase in the British quota to 65 per cent took place in July.

6. *International Broad Flanged Girder Association*

France, Germany, Luxembourg.

7. *International Malleable Tube Fittings Association*

Austria, Canada, Czechoslovakia, Germany, Great Britain, Italy, Spain, Sweden, Switzerland and the United States.

Formed in October 1935 to fix prices and production quotas for the participating countries. It was stated that negotiations with a view to securing the adherence of Belgium and Yugoslavia had reached an advanced stage.

8. *Other Agreements*

(*a*) *Tubes*

The Continental Tube Cartel (Röhrenverband A.G.) controlling the production of tubes in Belgium, Czechoslovakia, France, Germany, Hungary and Poland, and the International Tube Cartel controlling exports from these countries, together with those from Canada, Great Britain, Japan, Sweden and the United States, broke down in March 1935. For some time difficulties had been experienced in controlling production under the Continental cartel, and the dissolution was due largely to failure to convert the latter into an export cartel and to difficulties arising from the transfer of the Saar to Germany.

Negotiations were carried on with a view to reconstituting the International Tube Cartel, but these were not successful, largely owing to a demand from Germany for a greatly increased quota. In the meantime, Great Britain and the original members of the Continental Tube Cartel have entered into agreements for the mutual protection of their domestic markets, which, although not yet amounting to a formal cartel, exercises a fairly close control of minimum prices.

(*b*) *Bolts and Nuts*

At the end of 1935 negotiations were entered into for the formation of an International Bolt and Nut Council with a view to raising prices in export markets.

It is not possible to assess here, nor is this the place to discuss, the advantages and disadvantages which the cartel agreement has brought to Great Britain. There are various criticisms which can be made—in particular, it has been suggested that in the original negotiations too much emphasis was laid on reserving the home market to British producers and not enough on obtaining the biggest possible share in export markets—a policy which undoubtedly contributed to the increased entry of Continental manufacturers of semis into the field of finished products. The present shortage of steel has been blamed on to the Federation—probably without very full justification, since it has been practically impossible to obtain shipments from any foreign source during the early

months of 1937, while probably a further three-quarters of a million tons of steel per annum could be produced in this country if the requisite raw materials were available. It has been suggested that merchants were harshly treated and that consumers have been exploited by high prices, although prices of heavy steel products in Great Britain are relatively lower than in most other countries, as shown in the table below, and the price increases in recent months might easily have been greater in the absence of the Federation. Taking a wide view, the cartel agreement and the reorganisation of the British industry under the Federation have probably done considerably more good than harm.

PRICES OF HEAVY STEEL PRODUCTS: MAY 1937.

£ STERLING PER TON OF 2240 LBS.

	United Kingdom		U.S.A.	Germany	France
	Open Hearth—d/d.*		Open Hearth f.o.t.	Thomas f.o.t.	Open Hearth f.o.t.
	April 30th, 1937	May 1st, 1937	£ s. d.	£ s. d.	£ s. d.
	£ s. d.	£ s. d.			
Heavy Plates .	8 15 6	10 13 0	10 5 3	10 13 9	11 17 8
Joists and Sections .	8 8 0	10 5 6	10 5 3	9 0 6	9 13 10

* Delivery charges in the United Kingdom are estimated to average ten shillings to fifteen shillings per ton.

Lead

For some years after the breakdown of the International Lead Pool in 1932, as the result of the imposition of the British duty of 10 per cent *ad valorem*, the world production of lead was uncontrolled. In July 1935, however, a close association was arranged between the principal lead producers supplying the European market. This covered the Australian producers (Broken Hill Associated Smelters Proprietary, Ltd., and the Mount Isa Mines, Ltd.), Consolidated Mining and Smelting Co. (Canada), Burma Corporation, American Metal Company, American Smelting and Refining Company and San Francisco Mines of Mexico, Ltd. These companies also agreed not to increase production without due notice. Although no rigid control of production or exports was introduced, this arrangement worked extremely well and resulted in a considerable reduction in world stocks of lead. While in recent months there has scarcely been any need for any form of control, it is highly probable that some similar arrangement would be reverted to in the event of any worsening in the statistical position of the metal.

Meat

Imports of beef, mutton and lamb into the United Kingdom have been regulated, since the conclusion of the Ottawa Agreements, either by voluntary agreements with the Dominions or by bilateral agreements with South American supplying countries. Recently, however, the Government has announced its intention to set up an Empire

Beef Council representative of the United Kingdom and other Empire countries concerned, and an International Beef Conference, which will include also foreign countries supplying substantial quantities of meat to this market. Arrangements for establishing the Conference are in process of being completed. The Government retains power to regulate imports by quota in case of failure on the part of the Conference to agree, but it is intended that this body shall, in future, assume responsibility for securing stable market conditions in the United Kingdom. It is proposed that, unless otherwise agreed by the Conference, aggregate exports of beef to this market shall be maintained at recent levels during each of the next three years.

Mercury

The Spanish-Italian Cartel, Consorcio Mercurio Europeo, controlled about 80 per cent of the world production of mercury. The Cartel was renewed for a further period of two years during 1934, when production and sales quotas were allotted in the proportion Spain 60 per cent, Italy 40 per cent. It is understood that it was also arranged that Spain should have the main share of the American, and Italy of the European and Far Eastern markets. This arrangement, however, was upset by the imposition of sanctions against Italy and by the Spanish Civil War. In the former case it is understood that the Spanish producers agreed to supply the sanctionist countries and to leave practically the whole of the market in non-sanctionist countries to Italy. The agreement, which in any case lapsed at the end of 1936, was not officially renewed by the Valencia Government, although the existing distributive organisation appears to have succeeded in maintaining approximately the former ratios.

The price was controlled by the Cartel, but was to some extent limited by the fact that there is a large potential production in the United States, which tends to materialise if the price is raised beyond a certain level. An attempt to maintain an artificially high price level broke down in 1931 owing to the restriction of consumption and the consequent accumulation of very considerable stocks. The sales of Spanish and Italian mercury are handled exclusively by agents established in London.

Nitrogen

Since the completion of the first International Nitrogen Agreement in 1928 the regulation of the production and price of nitrogen fertilisers has presented considerable difficulty owing to the intense internal competition between the European producers on the one hand, and the competition between the European producers as a whole and the producers of Chile nitrate on the other. With regard to the former, the original European Nitrogen Cartel comprised as full members only the Stickstoff Syndikat (Germany), Norsk Hydro (Norway), Imperial Chemical Industries (Great Britain) and the Stickstoff Verkaufsvereinigung (Czechoslovakia). The Cartel, however, eventually succeeded in concluding agreements with the producers in all other European countries with the exception of France, where the Government opposed participation in international nitrogen restriction agreements. Thus the Belgian and Dutch producers (the most important of which is state-controlled, while the other is controlled by the Italian Montecatini Company) agreed to limit production to a small percentage of capacity in return for a deficiency

payment from the British-Norwegian-German producers (DEN group), which enabled them to cover overhead costs and pay a small dividend. Finally, the European producers concluded an agreement with the producers of Chile nitrate whereby the latter were allotted an export quota for all markets with the exception of the United States, which was left as a free market and served to some extent as a safety valve for excess Chile nitrate production. Outside the United States the markets were divided into European cartel countries and free markets, the Chilean producers for the year 1934/35 being allotted a quota of 50,000-55,000 tons in the former, while sales to the latter were divided on the existing basis. A system of price control and duty rebates was also instituted.

Up to 1935 these agreements were renewed annually, the quotas running from July 1 to June 30 each year. In 1935, however, although negotiations for renewal were started in May, a settlement was not reached until September after the British duty on some of the most important nitrogenous fertilisers had been increased from 20 per cent *ad valorem* to £4 per ton. Under this agreement, which extended the control system for three years as from July 1, 1935 (though provision was made for denunciation after two years), all the European producers became full members of the European Cartel, Compagnie Internationale de l'Azote (C.I.A.), which now embraces Belgium, Czechoslovakia, France, Germany, Great Britain, Holland, Italy, Norway, Poland and Switzerland. Although certain adjustments were made to individual quotas the basis of the control of output remained as before. This arrangement paved the way for a further agreement with Chile for a period of three years. Though full details of this agreement have not been made public it is believed that the full quota allotted to Chile, including exports to both the cartel countries and free markets, amounted to 1,250,000 tons (Chile nitrate basis) per annum, an increase of about 50,000 metric tons on the years 1934/35.

The Japanese producers, although their output was increasing rapidly, were not a party to the cartel agreement, since Japan remained on balance an important net importer of nitrogenous fertilisers. In January 1936, however, it was announced that a two years agreement had been concluded between the European Cartel and the Japan Sulphate of Ammonia Manufacturers' Association, under which it was agreed that Japanese imports should be confined to the first six months of the calendar year, and should be limited to 125,000 metric tons (ammonium sulphate basis) per annum, while Japanese exports should be confined to the second six months of the calendar year and should not exceed 60,000 metric tons per annum. It was further agreed that Japanese exports should be confined to Far Eastern countries, excluding America and French Indo-China.

Certain "gentlemen's agreements" have been entered into with Canadian and United States interests.

An important aspect of the International Cartel arrangements has been the institution in a number of countries of joint selling organisations, the pooling of agricultural research activities, and the standardisation of products. On the whole, the International Cartel has probably benefited consumers by enabling them to make forward contracts at fixed prices, by ensuring them a standard product, and by the fact that the Cartel, when allocating quotas, has endeavoured to take into account the special requirements and preferences of the main importing countries for different types of nitrogenous fertilisers.

Phosphate Rock

The principal exporters of phosphate rock are Algeria, Tunis, Morocco and the United States. Prior to 1933 the three North African countries supplied the bulk of the European requirements, the United States product being ruled out owing to high production and transport costs. Following the devaluation of the dollar, however, the United States competition in European markets became considerable, and in order to meet this, producers in Algeria and Tunis formed in September 1933, a cartel known as the Comptoir des Phosphates d'Algerie et de Tunisie. The Moroccan producers, owing to the predominating part played in their industry by the state-controlled Office Cherifien, were unable to join this cartel but have co-operated closely with it. At the end of 1933 it was reported that an agreement was concluded between the Comptoir, the Office Cherifien and the United States producers, whereby exports from the North African countries were to be regulated by quotas based on the total European consumption. This agreement was, however, never confirmed by the United States, and the United States exports to Europe in 1934 did not show any falling off. However, the Comptoir has concluded quota agreements with producers in Egypt and Oceania and has been enabled not only to stabilise prices, but also to secure a series of small but steady increases. In addition, real co-operation has been brought about between the North African mines, and the Comptoir has been successful in securing a reduction in freight rates from North Africa, and in negotiating with various governments on currency release and credit questions.

It is understood that there was a certain amount of friction inside the cartel in 1936 due to shipments from Morocco having exceeded the allotted quota, it being pointed out that the system of fines for excess shipments was only intended to cover exceptional cases involving small tonnages. The matter is believed to have been settled amicably.

There is an International Superphosphate Manufacturers' Association with offices in Hamburg, but it is not a cartel, and its activities appear to lie mainly in the field of statistics and sales development. Its statistics are remarkably detailed and complete.

Porcelain

There is an agreement between the German, French and Czechoslovakian producers regarding the fixing of prices and division of the market for Turkish cups in Algeria and Tunis. While this agreement is of some interest it can scarcely be described as having a very wide scope, but the fact that international co-operation in the industry on the Continent does take place is illustrated by a further agreement made at the time of the Austro-Czechoslovakian trade agreement in July 1936, between the porcelain producers of Germany, Austria, Czechoslovakia, France and Italy regarding minimum prices on the Austrian market.

Potash

The potash cartel was formed early in 1926 by the French and German producers, the former being allotted a quota of 33 per cent in export markets. In March 1922 the cartel was joined by Poland, to which country a quota of 4 per cent was allotted. For some

years the cartel enjoyed a virtual monopoly of potash exports, but, with the growth of Spain as a low cost producer with a limited home market, an intense price war set in—particularly in Holland—and the break up of the cartel was anticipated. After prolonged negotiations, however, a preliminary agreement was made with the Spanish producers in April 1935, under which the latter were allotted a quota of 14 per cent of total foreign sales. The Spanish producers have stated that they are well satisfied with the results of this arrangement, and it is understood that a permanent agreement has since been negotiated which will ensure the continuance of co-operation until 1941.

In March 1936 an agreement was concluded between the cartel and Palestine Potash Ltd., which claimed that it was precluded from joining the cartel on account of the terms of its concession.

The present position, therefore, is that the Franco-German cartel has export agreements with all the principal producers with the exception of those in Russia and the United States. With regard to the latter, however, there is a research and propaganda agreement between the cartel and the United States producers, and a good deal of friendly co-operation exists in relation to export policies. The Russian production has been increasing rapidly in recent years, and this constitutes a potential menace to the cartel, though Russian consumption is also expanding, and the Government has been pursuing a cautious policy with regard to exports, maintaining prices in the region of those fixed by the international cartel.

Pulp and Paper

1. Pulp

The European Sulphite pulp producers in Sweden, Finland, Norway, Germany, Memel, Czechoslovakia and Austria co-operate in the control of exports through Sulphite Pulp Suppliers (S.P.S.). This organisation was originally a cartel controlling production, but after a series of meetings at the end of 1935 it was decided to substitute export for production control. The new agreement is to run for three years to the end of 1938, the total export quota for 1936 being fixed at 2,500,000 metric tons. This figure is divided between the various producing countries in proportion to their output capacity.

There is also a cartel agreement covering mechanical pulp exports from the Scandinavian countries until the end of 1938—Mechanical Pulp Suppliers' Association M.P.S.—composed of the wet pulp exporters of Sweden, Norway and Finland. Fears were expressed that the recent purchase of mills in Sweden by Bowater's Paper Mills might disrupt this cartel, but they appear to be groundless. There has been a good deal of apparently not unjustified criticism of the price policy of these cartels and of suggestions that consumers are being held to ransom. While the very low prices—often below cost of production—prevailing before the recent boom should be remembered, it is to be hoped that these cartels will not jeopardise their future by excessive exuberance in the matter of prices, which would only tend to bring other countries into the market as producers.

2. Kraft Paper

An agreement exists between producers and merchants of kraft paper and kraft paper bags in Great Britain, Norway and Sweden for the purpose of maintaining prices. The

agreement covers all the principal producers, who compel the adherence of merchants by charging an additional £2 per ton to outsiders. Though there is no strict production or export control, the success of the scheme requires a measure of friendly co-operation with regard to production policy. The cartel is known as Scankraft. This cartel would appear to be one of the most complete and rigid, from the legal point of view, of any at present in existence. Considerable skill appears to have been exercised in drafting its constitution in order to make it binding upon merchants and distributors as well as producers, and in this respect it appears to be one of the most comprehensive attempts at control which has yet been made.

3. *Greaseproof Paper*

An organisation known as Scangreaseproof, similar to Scankraft, controls the price of greaseproof paper. It embraces all the Scandinavian producers and has working agreements with producers in Great Britain, Holland, Germany and Belgium.

Railway Rolling Stock

The International Rolling Stock Cartel (Association Internationale des Constructeurs des Materiaux Roulants) ceased to exercise control over prices and exports in 1931, when a number of important members withdrew from the organisation. The Association, however, continued to act as a statistical and advisory bureau and facilitated the conclusion between members of a number of secret agreements regarding exports to specified countries. At the end of 1935, the Association was greatly strengthened by the return of the German and the entry of the British manufacturers. It was suggested at that time that the Association might again be converted to a cartel controlling prices and exports, but no announcement has yet been made to this effect.

The members of the Association are the railway carriage and wagon builders of Great Britain, Germany, France, Belgium, Sweden, Switzerland, Austria, Poland and Hungary.

Rubber

The international rubber restriction agreement came into force in June 1934, following a period of unrestricted production after the breakdown of the Stevenson Scheme which applied only to producers in the British Empire. The scheme covers approximately 98.5 per cent of the output of natural rubber, embracing producers in the Straits Settlements, Malay States, Dutch East Indies, Ceylon, India, Burma, North Borneo, Sarawak, Siam and French Indo-China. The scheme was intended to remain in force for five years, and each of the participating countries was allotted a basic quota increasing from year to year. These increases, which vary for the different countries, are intended to take into account the potential production of the various countries in subsequent years. This potential production is capable of moderately accurate estimation in advance owing to the fact that plantations do not begin to yield until the fifth year from planting, while full bearing is not reached until eight to ten years.

The operation of the scheme is in the hands of the International Rubber Regulation Committee, which fixes exports from time to time as a percentage of the basic quotas. From the inauguration of the scheme, restriction became progressively more severe, the quota being fixed at 100 per cent for June and July 1934, 90 per cent in August and September, 80 per cent in October and November, 70 per cent in December, 75 per cent in the first quarter of 1935, 70 per cent in the second quarter, 65 per cent in the third quarter, 60 per cent in the fourth quarter, 60 per cent in the first half of 1936 and 65 per cent in the last half. At the end of January 1937, however, in view of the tightening of the supply position, it was announced that quotas for 1937 would be 75 per cent for the first quarter, 80 per cent for the second, and 85 per cent for the third. In March 1937, the quota for the second quarter of the year was again raised to 90 per cent. As shown below, these quota increases did not stem the rising tide of prices—in fact, one of the dangers in the new international control technique is that speculators interested in the short-term position regard a small quota increase as a bull point as it shows the consciousness of the Control Committee of the need for increased supplies, whereas, on the other hand, there is little chance, particularly in the case of rubber, of extra supplies coming on to the market for some time.

Considerable difficulties were experienced, owing to the failure of the Dutch Government hitherto to control effectively native production in the Dutch East Indies. For some time it proved impossible to enforce direct restriction of production, but considerable skill was exercised in the imposition of an export tax graduated in accordance with the price of rubber. By this means, exports from the Dutch East Indies were held down to 90,600 tons in the first half of 1936 compared with a permissible quota of 85,600 tons. Meanwhile, the survey and registration of the native areas has been going ahead with much success. In recent months, however, there has been a tendency for exports from the Dutch East Indies to lag behind the permissible figures, and the problem of the Control Committee has been one of accelerating rather than holding down shipments.

As a result of restriction, the price of rubber which averaged 2 11/32d. per lb. in 1932 and 3¼d. per lb. in 1933 increased to 6 7/32d. in 1934 and 6d. in 1935. During 1936 the price rose from 6½d. per lb. at the beginning to 10½d. per lb. at the end of the year, and by the end of March 1937 the price had touched 1s. 1¾d.—the highest figure since March 1928. Stocks outside the regulation areas, including stocks afloat which stood at 679,000 tons at the end of 1934, had been reduced to 638,000 tons at the end of March 1935 and 461,400 tons at the end of 1936. While the rubber scheme has on the whole been well managed, consumers have become very apprehensive about the stock reduction and restless about the price position in recent months, and though the objectives of the Committee of avoiding excessive price fluctuations and at the same time preventing any repetition of a dangerous rise in price to utterly excessive heights such as took place under the Stevenson scheme, are unquestionable, it must be admitted that most estates are very well placed with a quota over, say, 80 per cent.and a price of, say, 8d. to 9d. per lb. The situation at the end of the first quarter of 1937 has many elements of danger. There is, however, this difference from past history, that the control authorities appear to be aware of them and appear to be taking steps—if not the most drastic possible steps—to meet them.

Sugar

In order to deal with a surplus of export sugar amounting to approximately one-third of the annual world consumption, sugar producers in Cuba, Java, Germany, Czechoslovakia, Poland, Hungary and Belgium set up in May 1931 the International Sugar Council for the operation of the Chadbourne plan for joint restriction of exports and production, with a view to liquidation of existing stocks over the four and a half years of the plan's validity. At the end of October 1931 Peruvian producers joined the agreement, followed in December by those of Yugoslavia. The adherence of a number of member countries, however, had been obtained only by granting exorbitant export quotas. Though a very considerable restriction of exports was achieved, this was largely offset by increased production in countries outside the agreement, notably in the United States, Great Britain and the British Empire, and at the meeting of the International Sugar Council held in August 1935 it was decided that it was impossible to continue the Chadbourne Plan in its original form after September 1, 1935.

In the meantime, the British Government had announced their intention of consulting with the Colonies and Dominions with a view to reopening international negotiations for the restriction of production. As a result, the members of the International Sugar Council, with the exception of Java, formed an International Sugar Committee in order "to effect and facilitate efforts to arrive at a new sugar agreement." A number of negotiations have since taken place and in August 1936 the life of this committee was prolonged for a further year to August 30, 1937. At the same time, it was announced that a provisional agreement had been concluded between the committee and the sugar producers of Java and that the former would proceed with preparation of a new agreement to include, if possible, Great Britain and the United States. A meeting of the International Sugar Conference was convened in London in April 1937, when the extent of the free market for the crop year 1936-37 was discussed and agreed, and negotiations for its division entered into. The Conference, however, embarked on a wider field of discussion as well, including measures for the increase of consumption. As a result of these discussions, a five-year agreement has been drawn up to regulate the exports of the chief exporting countries and to stabilise the home production of certain of the importing countries.

It may be observed that the statistical position of sugar, unlike most commodities, has remained bad, and though price rises have taken place these have been largely psychological or in sympathy with other commodity prices.

Tea

The International Tea Committee regulates tea exports from India, Ceylon and the Dutch East Indies by means of a quota expressed as a percentage of the exports in the basis year 1931. The three countries also conduct co-operative development advertising financed by a levy on all tea produced. In August 1934 the committee reached an agreement with tea planters in Kenya, Nyassa, Tanganyika and Uganda to run to March 31, 1938, whereby the permissible area for new planting in these four countries was limited to 7,900 acres (Kenya 1,000 acres, Nyassa 2,000, Tanganyika 2,900 and Uganda 2,000). Production in the last few years has not undergone much variation, and the restriction

rate was not changed between April 1, 1935, and May 14, 1937, when it was lowered from 17½ per cent to 12½ per cent. The stock position has improved remarkably and prices have been on the upgrade.

Tin

In 1927 and 1928, following the considerable expansion in the output of tin due to the introduction of mechanical dredging, unofficial attempts were made to restrict supplies, but without much success. In the following year the Tin Producers' Association was formed for the purpose of stimulating consumption by research and propaganda. This association made several unsuccessful efforts to organise restriction on a voluntary basis, but at the end of 1930 government authorities in Malaya, the Dutch East Indies, Bolivia and Nigeria set up an International Tin Committee to regulate the industry on an international basis with full statutory authority in each country. Production quotas were allotted on the basis of 1929 output, and a restriction of approximately 22 per cent was imposed in February 1931. A further cut of 16 per cent was made in May. In August the co-operation of Siam was secured on the basis of a fixed quota of 10,000 tons per annum.

In September 1931 an official pool was set up under the committee to take up surplus stocks and hold them off the market until the price should increase above £165. Although further cuts in the quota were made, the scheme had little effect in raising prices, and the more drastic Byrne Scheme was adopted in 1932 involving a complete cessation of production in July and August and a further substantial increase in restriction. This had the desired effect, and in 1933 the scheme was prolonged until the end of 1936.

Meanwhile the production of "outsiders" had increased from 8 per cent of the total in 1929 to 20 per cent in 1933, and a clause was inserted in the new agreement allowing any of the signatory countries to cease restriction if this percentage should increase to 25 per cent. Shortly afterwards, however, an agreement was reached with producers in Cornwall, the Belgian Congo, French Indo-China and Portugal not to exceed certain limits.

As from the middle of 1935 the Tin Committee began to adopt a more liberal policy, as a result of the exhaustion of the buffer stock which had been set up in the previous year with the object of flattening out price fluctuations, and of the intense criticism to which the previous policy had been subjected on account of the high prices and actual market shortage which that policy had brought about.

During 1936, negotiations were set on foot for a further extension of the scheme, but considerable difficulties were raised by the adhering countries, notably Siam, which attempted to obtain a substantial increase in output. Although Siam had been demanding a flat rate quota of 20,000 tons against 10,000 tons under the previous agreement, a compromise was reached in November 1936, and the restriction agreement renewed as from January 1, 1937.

Owing to the tightness of the supply position and the rise in prices which took place at the end of 1936 and still more in the early months of 1937, a 15 per cent quota increase to 105 per cent of standard was announced on November 11, 1936, for the last quarter of

1936. For the first quarter of 1937 the quota was reduced to 100 per cent in mid-December 1936, but this did not involve any reduction in world supplies as Siam and the Belgian Congo had been given increased standard tonnages under the new agreement. In March 1937 it was decided to maintain the same rate of restriction for April-June 1937. Towards the end of March there was some talk of the abandonment of restriction altogether following the abandonment in the case of copper and the high price of metals generally. Further quota increases can only affect Malaya and the D.E.I. as Bolivia, Siam, the Belgian Congo and French-Indo China cannot (at the end of the first quarter of 1937) produce their full standard tonnages, while Nigeria is probably experiencing difficulty in doing so. On the whole, however, the agreement is likely to remain in force and in contrast to the position in the early days of the scheme it can be said to be operating on reasonably sound lines.

Timber

In order to adjust output and demand and to prevent a further fall in prices, representatives of the timber organisations in Finland, Sweden, Russia, Poland, Austria, Roumania, Yugoslavia and Czechoslovakia concluded the European Timber Exporters Convention (E.T.E.C.), at Copenhagen on November 15, 1935, with a view to restricting supplies of sawn timber. The agreement which came into force on December 1, 1935, is for a period of two years. Export quotas totalling 3,850,000 standards were fixed for the year 1936, being divided as follows: Finland 1,005,000 standards, U.S.S.R. 950,000, Sweden 820,000, Poland 313,000, Austria 275,000, Roumania 223,000, Yugoslavia 168,000 and Czechoslovakia 96,000. Mainly owing to greatly improved demand, the scheme proved extremely successful, and the rise in prices was further accentuated by the decision of the E.T.E.C. in October 1936 to leave quotas for 1937 virtually unchanged (the Roumanian quota was raised to 246,000 standards. Latvia, a new member of the Convention, was allotted a quota of 127,000 standards).

Wheat

An agreement for the regulation of the world supply of wheat came into force for the cereal year 1933/34 under the auspices of the International Wheat Advisory Committee. Under this agreement wheat-exporting countries accepted fixed export quotas and agreed to limit acreage, while the countries normally importing wheat undertook to reduce their tariffs and increase their import quotas when wheat prices rose to a certain figure, and not to increase home production beyond its current acreage. The agreement was, however, broken by the Argentine among the wheat-exporting countries, while in practically all wheat-importing countries there has been a substantial increase in home production. This was particularly the case with France, which obtained the permission of the Advisory Committee to export the surplus during the period June-October 1935.

Though there has been no formal denunciation of the agreement, the improvement in the statistical position due to climatic conditions has removed temporarily much of the necessity for artificial restriction of output, and the agreement may be considered to have lapsed, in spite of the warning of the Advisory Committee that reliance upon natural

disasters is not an adequate substitute for planned control. The Advisory Committee, however, was prolonged for a further two years as from August 1, 1936, in order to continue its work on the preparation of periodical reviews of the world wheat situation, further investigation of the possibilities of encouraging the use of wheat and the preparation of a survey covering the fundamental economic and social factors affecting production, consumption and exports. The committee is supported by the following countries: Argentine, Australia, Austria, Belgium, Bulgaria, Canada, France, Germany, Great Britain, Greece, Hungary, Italy, Poland, Russia, Roumania, Sweden, Switzerland, U.S.A. and Yugoslavia. The sharp rise in prices which took place in March 1937 is generally regarded as having been due to heavy buying by Germany and Italy, which countries, though aiming at bcoming self-supporting, had indifferent harvests in 1936.

Zinc

The International Zinc Cartel was first formed in 1928 embracing Belgium, Germany, Great Britain, France and Spain. For 1929 a 7 per cent restriction of production based on the monthly figures for November-December 1928 was imposed, but at the end of the year the cartel broke down mainly owing to the non-inclusion of the Canadian, Australian and United States producers.

In 1931 a second cartel was formed, including, in addition to the members of the first cartel, producers in Australia, Canada, Mexico, Poland, Norway and Czechoslovakia, and thus controlling about 87 per cent of the production outside the U.S.A. Individual quotas were allotted on the basis of the best three months' successive output between January 1927 and June 1930, the total of these quotas being known as the Ostend basis. Percentage production quotas were then announced from time to time, the actual permissible output of each producer being calculated by multiplying this percentage by his quota on the Ostend basis. Although one of the objects of the cartel was to maintain the price of zinc, no attempt was made to cause an undue rise in the price (although it is doubtful in any case how far this would have been possible) and the cartel functioned satisfactorily until the end of 1934. During 1934, however, in spite of a substantial improvement in the statistical position, the price of the metal failed to respond, mainly owing to the method of operation of the British 10 per cent *ad valorem* duty. Other difficulties facing the cartel were the growing production in excess of the allotted quotas, which was permitted on payment of a fine, and the rapid increase in the German production capacity. As a result of these difficulties, the cartel broke down at the end of 1934. For some time afterwards almost continual negotiations were carried on with a view to a renewal of the cartel, and these were assisted by a change in the British duty from 10 per cent *ad valorem* to 12s. 6d. per ton and the fact that Germany virtually ceased to be an exporter of zinc. Additional impetus was given to the negotiations by the threat of the British producers to apply for an increased duty unless the Continental producers agreed to a restriction of production, but it proved impossible to find a satisfactory basis for renewal of the cartel and since the latter part of 1936, with the improvement in price and statistical position, most of the original objectives of the cartel have been achieved. It was at one time suggested that the cartel might be reformed on the basis of a restriction of mine output as opposed to smelter output in the case of the previous cartel.

Other Cartel Agreements

In additional to the above examples, a wide range of other products of varying importance is covered by cartel agreements of different kinds. In particular, several other heavy chemical products are covered by cartel agreements. One of the most important of these is alkali (soda ash) but the details of this agreement are surrounded by more secrecy than practically any other. The agreement appears to have arisen in the first place from the virtual monopoly arising out of the Solvay patent position. It now involves the exchange of technical information, the rigid division of markets on a geographical basis, and the limitation of production. It is believed to be one of the few agreements in which Russia co-operates. Other heavy chemicals covered by international agreements are sodium sulphate, sodium sulphide (operating through the Chlorkalk Verteilungstelle), liquid ammonia, and sodium cyanide. The latter agreement includes Germany, the United Kingdom and France, while the American Cyanamide Company appears to co-operate. There is also an important International Saccharine Convention. Explosives are covered by an agreement between the principal interests in the United Kingdom, Germany, France and the United States.

A number of other raw or semi-manufactured materials are also known to be covered by international agreements of which the most important are pyrites, various classes of ferro-alloys, molybdenite ore, cobalt, vanadium, iron oxide, white and red lead. For some years, a European cartel consisting of British, French and German manufacturers of ferro-molybdenum and other molybdenum products has existed for the purpose of dividing territories and standardising prices. Approximately the same group of companies combine to form Ferro-Tungsten and Ferro-Vanadium cartels which exist for the same purposes.

In addition to those already mentioned, such as electric lamps, certain other manufactured goods are known to be subject to international cartel agreements. Of these, the most important are baths and matches. British manufacturers of electric cables, who have for some time been closely organised in the Cable Makers' Association, are also believed to have recently concluded certain international arrangements.

Semi-Monopoly Products

Apart from the large number of commodities which are subject to control by international cartel agreements, there is a large and important group of commodities which enter into international trade, the production of which is so largely dominated by one or two large groups, that, without any formal co-operation, price and sales policy can be determined by a single firm, or loose co-operation may exist from time to time. In this group may be mentioned platinum (International Nickel and Russia), nickel (International Nickel), whale-oil (Unilever), wolfram, manganese ore, asbestos, camphor, quinine, and many others.

The Growing Importance of International Control

The above details of international cartel agreements cannot, of course, hope to be exhaustive as regards structure or operations in the limited space available for discussion.

Even on the basis of the evidence presented, however, the following general observations can be made regarding them.

Control of production is tending to be abandoned, except in exceptional cases, where, in particular, the number of important producing units concerned is small, or where the domestic market in the producing country concerned for the commodity in question is negligible. The chief remaining examples are aluminium and tin. Copper control has been nominally abandoned, although its reintroduction would not be difficult and may be anticipated if the market position deteriorates. The scheme for mercury has been abandoned for political reasons. In the case of lead, loose contact between producers is maintained, but there is no need for a control scheme, though here again one might be reintroduced.

Control by international cartels increasingly takes the more logical—and, historically, more successful—form of control of exports. Examples differing widely in scope are: coal (Anglo-Polish agreement, which has virtually broken down), coke, dyes, electric lamp bulbs, ferro-silicon, lamp glass, granite, iron and steel, nitrogen fertilisers, phosphate rock, porcelain, potash, pulp and paper, rubber, tea, timber and wheat (abandoned).

International cartels in which governments, as opposed to the industries concerned, have taken a hand are fairly limited, although there are some important examples, such as tin, sugar, wheat, rubber and iron and steel (indirectly).

It cannot be denied that the extent to which international control of trade and production has developed is very remarkable and covers, in one way or another, an important proportion of the trade of the world. The practical aspects of this development are already forcing their attentions on governments. For instance, the Import Duties Advisory Committee in this country, in making recommendations concerning the alteration of import duties, has been compelled to report the existence of international agreements, as in the following example, which actually concerns an application for the imposition of additional duties on sodium bichromate and potassium bichromate:

> "The home and export trade is in large measure subjected to control by an international cartel, of which the British manufacturers are members, and we have no reason to doubt that that control, which regulates prices at levels of which substantial sections of consumers do not complain, has been exercised in a reasonable manner consistently with the requirements of orderly marketing."

With the increase in the number of commodities entering into international trade to which such considerations apply, we believe that there is a good case for rationalising the government treatment of such agreements in commercial negotiations, both as a measure of protection to the consumer, and for the development on sound lines of a movement which promises to lead to more orderly and rational marketing.

V. THE MECHANISM OF INTERNATIONAL TRADE

Summary

(i) The efficiency with which the international exchange of commodities takes place depends not only upon the arrangements made between governments and industries affecting general trading conditions, but also upon the efficiency with which contacts between individual traders are organised.

(ii) British export methods have been slow to adapt themselves to changing conditions in international trade. There is even a tendency to disregard export markets altogether in view of the difficulties of selling abroad and of the undoubted attractions, from the point of view of maximising current profits, of a flourishing and protected home market. This attitude is obviously highly injurious to the national interest at a time when prosperity is founded upon the narrow basis of the home market, and is due in part to influences, such as that of the rearmament programme, which are inevitably ephemeral. But it is also short-sighted when judged in accordance with the long-period interests of individual manufacturers themselves. For failure to maintain goodwill in foreign markets by a little self-denial now will react in the future by making infinitely more difficult the reopening of trading opportunities which at some future date may be urgently necessary.

(iii) British export trade was built up in a period when trade was fairly free, population and the demand for imported commodities in the United Kingdom were growing together, overseas territories were being opened up by capital exports and emigration, and were creating new centres of production and consumption, and the multiplication and diversification of the commodities entering into international trade had not, by modern standards, proceeded very far. The merchant house played an important part in the development and handling of trade during this period. The merchant performed a vital function, since he customarily dealt in goods moving in more than one direction, and this kept trade moving and facilitated the rapid circulation of funds invested in trade. Merchant houses have been of two main types, the first operating predominantly from an English port as an exporter of British goods to other countries, the second, in addition to acting as exporters, functioning also as importers in the country of consumption, being domiciled there, and having a large stake invested there in distributive organisation, etc.

(iv) The merchant business of merchant houses has been declining for some years from a number of causes, and the decline has tended to hit firms operating mainly from this country more severely than those with a large stake in their principal markets. The growth in the proportionate importance of goods requiring technical

sales knowledge and servicing has, in the first place, made merchant business more difficult. Though some merchants have made satisfactory arrangements with manufacturers to get over this difficulty, there has been an obvious incentive to the manufacturers to sell direct through a specialised organisation of his own. Conversely, where the merchant has succeeded in developing a definite market to a state of considerable prosperity and importance, the manufacturer may be tempted to take over himself in order to save the merchant's profit. In this respect, the fate of merchants is similar to that of all pioneers. Hence, mainly for these two reasons, large manufacturers have come increasingly to sell through distributive organisations of their own.

(v) A second cause of the decline of British merchant business has been the growth of foreign competition in an occupation which was once largely dominated by British firms. Local importing firms, depending upon local finance, have cut increasingly into British merchant business.

(vi) A third, and probably the most drastic cause, has been the growth of impediments to two-way trade arising from a number of causes. Merchants are particularly dependent upon two-way trade and upon keeping their goods mobile. Serious interference has occurred in the last decade to the two-way trade of British merchant houses, of which the most important factors have been the growth of protection in the United Kingdom; the growth of one-way selling by large British manufacturers, which has not only deprived the merchant house of business, but has also helped to cause exchange difficulties in the importing country; and the general growth of exchange restrictions and impediments to multilateral trading, resulting in the freezing of merchant balances abroad and the shrinkage of ancillary business.

(vii) The growth of state trading has also tended to restrict the business of merchant houses, and must be accounted a factor of long-term importance based on social as well as economic causes, and not merely a "crisis measure" of temporary significance.

(viii) The smaller manufacturer often makes use of agents in conducting export business. There are many difficulties in the way of a manufacturer seeking a reliable agent and further difficulties in building up satisfactory arrangements when one has been appointed. If carefully organised, this system can work well, but constant care and attention to details is necessary; but as a system it is not foolproof. To the extent that merchants are increasingly going in for "merchant-agency" business, however, the position appears to be improving.

(ix) The merchants' interest in two-way trade was vital to the interests of the British export trade in general, since it helped customers to sell their own produce and provided them with funds with which to make further purchases from British exporters. Unfortunately, the overseas sales organisations of large manufacturers are not interested in two-way trade, and while taking from the merchants part of their turnover in goods exported from this country, have refused to take over that other function of merchant business—assisting the customers of the export

trade to sell their own produce. The position is made worse, since manufacturers' sales organisations do not confine their attentions to marketing their own manufactures but add complementary and miscellaneous lines of other manufactured goods in order to (*a*) push the sales of their own goods by offering complementary products, and (*b*) cover the fixed costs of maintaining a large distributive organisation overseas. In many cases, large manufacturing firms compete with merchant houses on the foundation of superior financial and other resources.

(x) The decline of merchant business is threatening to dissipate an accumulated wealth of knowledge and experience of the economic and psychological conditions and requirements of foreign markets which is vital to the successful conduct of the British export trade. In so far as the experience and accumulated foreign funds of the merchant houses are being diverted to investment in local industries, the effect is sometimes the same.

(xi) Foreign manufacturers have devoted more attention to direct selling and direct representation, and have latterly made less use of the agency system than most British firms. Internal economic conditions in many foreign countries have also often acted as an incentive to men of first-class technical qualifications to serve abroad. An active export trade in experts assists the export trade in goods and services in many ways, directly and indirectly. The United Kingdom is relatively unfavourably situated in this respect, and conditions of remuneration and security in positions abroad need to be improved in order to remove this disadvantage. Foreign countries have often competed with British firms in the extension of credits. In many cases, competition of this sort has been pushed to uneconomic lengths and should be resisted by British firms, which should, if necessary, conclude agreements among themselves with this object in view. Foreign firms are also often better informed about local conditions and more receptive to local colour; this is the result, usually, of more direct and thorough local representation.

(xii) Over the world as a whole, consumers' requirements are changing and tending to become more exacting. This is the effect partly of rising standards of living and partly of increased competition, which gives the consumer a wider range of choice, and necessitates a corresponding improvement in the efficiency of sales methods. In so far as the largest potential markets of the future lie in territories where the standard of living is still low and consumer psychology is primitive, attention to local peculiarities is particularly important. Since many of these factors are the fundamental results of economic growth, though they may have been stimulated by the depression, it is clear that goodwill in overseas markets must be cultivated at all times, irrespective of booms and slumps.

(xiii) The existence of gaps in the present organisation of the British export trade, when combined with other impediments to trade and the free movement of trade funds, is partly responsible for the dangerous neglect by British manufacturers of foreign markets. Unfortunately, the gap in organisation is most serious in the case of

small manufacturers, since it is the smaller firms in the newer industries which particularly need every encouragement to export, in order that the vitality of British export trade shall be maintained and improved by continued diversification and development.

(xiv) Many large firms have realised that the requirements of world markets have become more exacting and have adopted intensive methods of sales organisation in an admirable attempt to improve distributive efficiency. But efficiency in selling will be of little avail if the foreign consumer has no purchasing power, and the power of foreign consumers to buy British goods depends on their ability to dispose of their own produce.

(xv) Large manufacturers can hardly be expected to handle directly the export produce of foreign countries, except in isolated instances, but much can be done indirectly. The development in foreign countries of domestic industries to produce goods formerly imported from the United Kingdom is, in any case, inevitable. The transition can be eased, however, and developments kept within sound lines if the British industries concerned will agree to participate in this development. By so doing they will acquire an equity interest in the supply of markets which they formerly supplied directly with goods. And they will contribute towards increased exports of capital goods and the maximisation of income from foreign investments and invisible exports.

(xvi) There is also the possibility of assisting in the organisation of efficient trading companies to handle the export produce of foreign countries which import or wish to import British goods. This represents a logical attempt to bring the efficiency of foreign countries in the disposal of their produce up to the level achieved by the sales organisations of large British manufacturers in export markets, and would alleviate some of the difficulties caused by the development of the latter unilaterally. Large industrial exporters, who would profit by an acceleration in the development of some foreign market, might participate with financial interests, merchant interests and the government of the country concerned to set up a trading company to improve the marketing of the principal export products of the country in question. A few foreign countries are already moving in this direction on their own account, but their efforts would be immeasurably strengthened by assistance from this country.

(xvii) Smaller firms should consider the advantages of trading with certain predetermined territories through the machinery of a special *consortium* in alliance with the resources of merchant and merchant banking houses. Where the resources available for trade development are limited, they can be more efficiently applied if they are pooled and allied to the special knowledge of local conditions possessed by a merchant house. Merchant houses, in addition, often have local funds to invest which might be made available for the purpose of granting credit to consumers. Such *consortia* are particularly suitable as a means of developing trade in complementary or non-competitive goods, but can also be applied to competitive goods, and might include foreign firms as well. The idea is not a new one, and is in a

sense a development out of the increasing use of merchant-agencies. These also should be encouraged.

(xviii) Any improvement in the organisation of trading machinery can only come from within—by the constructive efforts of British industry and of British financial and commercial institutions. The accumulated experience of the merchant houses is the foundation on which any new type of organisation would have to be built.

Problems of Export Sales Efficiency

In the last two chapters we have been concerned with the wider and more general aspects of the mechanism of international trade, namely, the arrangements made between governments and between industries for the purpose of regulating broadly the conditions under which trade is carried on. In the event, however, since trade is conducted between individuals or individual firms, the efficiency with which the international exchange of commodities takes place depends also upon the efficiency with which individual contacts are organised. Just as the domestic structure of industry and industrial sales organisation is subject to evolution, so changes occur in the background of international trade which require changes in the sales technique of individual firms, if their efficiency as importers or exporters is to be preserved. Furthermore, in a great number of countries, internal conditions are to-day subject to continuous changes, so that the achievement of efficiency in selling abroad, which frequently means ability of adaptation to market conditions, is a more difficult problem of business administration for the average firm than the maintenance of the efficiency of its sales organisation at home. Even when allowance has been made for these difficulties, the conclusion is reached that there is an outstanding lack of knowledge of foreign markets in British industry as a whole. Such knowledge must embrace more than mere facility in keeping in touch with market conditions abroad; it must include a wider understanding of political, economic and social trends and aspirations if trading methods are to be developed to serve foreign markets with the fullest efficiency in the long period.

The Danger of Indifference to Export Markets

British export methods have, in fact, failed sadly to adapt themselves to the changing conditions of modern international trade. Possibly because the manufacturer's old methods based largely upon the merchant house which offered him "export without tears"—were so successful in their own time there was a certain reluctance to abandon them. Where new and successful methods have been substituted for certain functions of the older system, other vital complementary functions of the older system have been allowed to fall into decay. And there is even a tendency, by no means negligible, on account of the increasing complexity and difficulty of export trade, to abandon export markets altogether and concentrate upon satisfying domestic demand. This attitude, which is scarcely less than deplorable from the point of view of the national interest, has arisen from a number of factors. The growing consumption capacity of the British home market, protected as it now is by tariffs, has, during the past five years, provided an easy outlet for many manufacturing industries with the certainty of large profits. At the present time, an additional demand on account of the rearmament programme has been superimposed upon a

demand already expanding rapidly with the rising standard of living. Many manufacturers—although there are conspicuous exceptions—with this easy and profitable market at their door, have preferred to take a short view. Such attention as is being given to overseas markets, often tends to be devoted exclusively to Empire markets where ties of language and currency exist and where many goods enjoy preferential tariff treatment.

Most United Kingdom firms can, without difficulty, fill their works to capacity with orders from the home market which yield a high margin of profit. While this is so, why should they trouble to look for orders abroad in circumstances in which the barriers to easy trading, in the shape of tariffs, quotas and exchange restrictions, are more formidable than ever before, and when the profit obtainable in export business is nearly always smaller than the profit to be made in domestic business? From the short view, which looks only at immediate financial results, manufacturers who take this line may appear to be serving their own best interests. But it is doubtful whether they are really serving even their own best interests, taking a longer and broader view, and even more doubtful whether they are on any criterion serving the national good. For the achievement of a progressively rising standard of living, Great Britain must import increasing quantities of materials which cannot be produced at home. To do so involves the building up of larger claims on the countries which produce them, and the principal method of doing this is to export British goods. Viewed from the purely selfish standpoint of the individual manufacturer also, concentration on the home market, even though it maximises present profits, has disquieting implications over the long period. The home market can hardly continue to expand at the rate shown in the past five years; certain aspects of the home market expansion, such as activity engendered by rearmament, are of necessity transitory. It may even be that a setback to the expansion of home consumption, arising out of the mounting cost of living, is much nearer than is commonly anticipated. In such circumstances, the manufacturer would be forced in his own interest to look elsewhere than to Great Britain for consumption outlets to enable him to expand and even to maintain his turnover. Alternative outlets will have to be found abroad. But the neglect of export business at the present time must result in a loss of goodwill among potential customers abroad, which may not seem to be a matter for serious concern now, but which would be of incalculable importance at some later date. The maintenance of an active overseas business at present, even though it may involve a loss of potential profits now, in fact represents a prudent investment—an insurance premium against a less easy state of affairs in the home market in years to come.

Some manufacturers have seen this danger and are endeavouring to provide for it, while members of the government have frequently of late stressed the importance of a flourishing export trade. At the same time, it must be recognised that insistence by the government on the priority of armament construction is hindering production for export by firms which have realised the importance of maintaining export contacts, even if they are firms not directly engaged on armament orders.

Owing to this failure to appreciate the long period necessity of maintaining an active export trade, even the existing machinery of foreign trade is being neglected. At the same time, the mechanism itself is becoming obsolete as a result of radical changes in the struc-

ture of industry and trade and the requirements of consumers the world over. British export technique is in fact in a transitional stage. British export trade was built up during a period when trade was fairly free, population and the demand for imported commodities in Great Britain were growing together, overseas territories were being opened up by capital exports and emigration and the multiplication and diversification of the commodities entering into international trade had not, by modern standards, proceeded very far.

The Functions of Merchant Houses

The merchant house played a large part in the handling of trade during this period. Consumers abroad were not apt to discriminate overmuch, as the range of choice was restricted and "British made" was a hall mark of quality and durability which counted for a great deal in overseas markets as long as Great Britain retained her lead as the pioneer of large-scale manufacture. In many cases the British merchant house relieved the British manufacturer of all responsibility for keeping in touch with his overseas markets or for marketing his products abroad and increased the marketability of his goods by adding to them its own name, which carried considerable goodwill. The merchant, in other words, situated in, say, London, Manchester, or Liverpool, bought direct from the British manufacturer such lines of goods as his experience told him were likely to sell well in foreign markets. These goods he then shipped and sold to importers or distributors in the consuming country. In most cases he repatriated a large part of his proceeds to the United Kingdom by buying and importing for home consumption the produce of the country in which he made his export sales, and did a variety of other business as well, such as transactions in foreign exchange, forwarding and insurance broking. In this way he performed a vital function in marrying export and import transactions, thus keeping trade moving and facilitating the circulation and liquidity of funds invested in trade. His outlook was essentially opportunist, and he customarily made two profits—one on export, the other on import transactions. Moreover, he also facilitated the growth of multilateral trade, since many merchant houses bought wherever they could and sold in a wide range of industrial countries the primary produce which they handled from overseas. And since they were in close touch with the unrivalled facilities of London banking and finance, they brought the cheapest possible means of trading within reach of the world's manufacturers and primary producers.

Merchant houses have, generally speaking, been of two main types, though the distinction has often been blurred in practice. One type has operated mainly from British ports or manufacturing centres as exporters of British manufactured goods to importers in the consuming country. The second type has performed a more elaborate function. Many merchant houses, in addition to acting as exporters of British goods, have functioned as importers in the country of consumption, frequently having become domiciled there. Such firms have in consequence invested the major part of their capital in maintaining distributive organisations abroad. They became intimately connected with the markets in which they sold, and collected a vast volume of commercial intelligence which has been, in fact, the major asset of their business. In many cases, they came to act in course of time not entirely as principals, but handled goods on behalf of British manufacturers in

the capacity of merchant agents, providing the distributive machinery, and bearing only part of the selling risk, or perhaps none of it. Such firms obviously acquired a much more detailed and intimate knowledge of the markets with which they dealt, and a larger financial stake there than the houses which operated mainly from a British port. The names of some of these great firms—Jardine Matheson and Butterfield and Swire, in the Far East; Ralli Bros., in India; Guthrie's, in Malaya; Anthony Gibbs and Duncan Fox, in South America—will always be associated with the commercial development of certain regions. In some cases, and especially in some of the British Colonies, British merchant houses for many years practically dominated the economic life of the territory.

The Decline of Merchant Business

Since the war, and perhaps even before it, the British export business of the merchant houses has been declining from a number of causes. The decline has, generally speaking, made even greater difficulties for those firms which have operated mainly from the United Kingdom than for those with a large stake in their principal markets.

Formerly export goods consisted for the most part of ready-made goods and manufactures for immediate consumption. Since the war, the proportionate importance of exports of machinery and intermediate products for rising industries abroad has increased considerably; these goods require servicing and technical sales knowledge which merchants rarely possessed or could afford to supply. The growth in the importance of technical products, which require specialised selling, has not, moreover, been confined to the market for capital goods, but has affected consumption goods as well. Merchant houses have failed, for the most part, to keep pace with these changes in the requirements of markets, and have in course of time been able to render less and less satisfactory service to the exporting manufacturer. In the market for consumption goods, merchants have often supposed in the past that their interests lay in the diversification of typical lines and sources of supply, and imposing their own "chops" on the products which they sold. In some industries, accusations have been raised against them that they deliberately encouraged the ignorance of British manufacturers concerning conditions abroad. They have, therefore, suffered from the competition of the bulk selling methods of other exporting countries and from the natural desire of British manufacturers to do the same. But it is equally true to say that in other cases merchants have made strenuous efforts to get manufacturers interested in their foreign markets and to co-operate in their development without arousing much response. Some merchant houses with branches abroad have also endeavoured, with some success, to adapt their organisations to handling sales of technical products. They have, for instance, taken the decision to specialise and have engaged technical staff, or have worked out schemes for the interchange of staff with manufacturers, the additional expenses being shared. In this sense, there has been a growing tendency towards the reorganisation of merchant houses as merchant agencies capable of giving technical service in specialised lines of goods. This is a healthy development which is making for more efficient trading. But it is also a tacit admission that the old methods of merchant trading are out of date.

In effect, the merchant houses have been caught between two fires. If they did well and succeeded in developing a growing market for the products which they handled, the

manufacturers became interested and, casting covetous eyes on merchants' profits, began to take over the distributive function for themselves. This is a fate to which all pioneers are subject, whether in trade development, or in invention. If, on the other hand, they proved inefficient salesmen, either through the increasing technical exigencies of the market, or for other causes, there was a strong incentive to the manufacturer to try to do better on his own account.

The Growth of Direct Selling by Manufacturers

Hence, the large exporting manufacturer—and only the largest firms possess the necessary financial, technical and administrative resources—has come increasingly to organise his own export sales and to build up an elaborate distribution system under his own control, in order to reap the advantages of bulk selling and standardisation, and to permit the adoption of long-term programmes of market development. In so doing, some British manufacturers have continued, at any rate for a time, to use the accumulated resources of knowledge and organisation of British merchant houses established abroad, which built up and still possess a fairly elaborate importing organisation in the country which they serve. But in the process, the merchant has tended to become more and more subordinated to the manufacturer, so that in many cases he acts in effect, if not in name, as the local distributing agent of the manufacturer. This, of course, is an inevitable feature of the transition of the old merchant house into a merchant agency.

Competition from Abroad

The second cause of the decline of the merchant house has been the competition of the more modern and efficient merchanting organisations of other countries, such as Japan, and the growth not only of local industries abroad, but also of local importing firms of growing strength supported by local finance. In the first case, British merchants have too often been content to remain in the seaports, leaving the development of the interior to the domestic firms with which they dealt, while the selling organisations of other countries, particularly Japan, have appreciated the necessity of direct contact in even the most remote districts. Those British firms which have appreciated the necessity of preserving a close touch with the market through the distributive trade have been much the most successful in keeping business.

The development of local industries and local importing firms is, in a sense, the inevitable consequence of politico-economic development. The effects are that an increasing volume of import purchases by foreign firms is being made direct from the British manufacturer instead of through the agency of a British merchant house, and that local importers are being supported by local finance instead of British finance. At the same time, the merchant houses have lost part of their local financial business—partly to local banks and partly owing to the course of development of the banking system in this country. In the early days of commercial development, merchanting and banking were so closely allied as to be almost indistinguishable. In course of time, increasing specialisation has resulted in a steady loss of financial business by the merchants to banking institutions. At the same time, the development of State banks and locally-owned banks in countries which were formerly dependent on British finance has affected the financial business of British

merchants and merchant banks alike. Much the same development has occurred in the insurance business.

In so far as British merchant houses have suffered from the competition of local firms, trade is not being lost by the merchant profession as a whole, but British merchants are playing a smaller part in the profession in course of time. All types of merchant houses have suffered from this development, but the export merchant operating from the United Kingdom has been much more vulnerable to it than British merchant houses domiciled abroad.

The third, and possibly the most drastic cause of the decline of merchant house business, has been the growth of impediments to two-way trade arising from a number of causes. We have already seen that merchants are particularly dependent upon two-way trade and upon keeping their funds mobile. But serious interference has occurred in the past decade with the conduct of two-way trade. The most important factors affecting merchant businesses have been the general growth of exchange restrictions and the decline of multilateral trade from a variety of causes analysed in Chapter II, resulting in the freezing of merchant balances abroad and the shrinkage of the ancillary business on which merchant houses depended; the growth of one-way export selling by large British manufacturers which has not only deprived the merchant house of business, but has also helped to aggravate exchange difficulties in the importing country with adverse reactions on the remaining merchant business; and the growth of protection in Great Britain—the exporting country—which makes it more difficult to import goods in return.

The Growth of State Trading

The scope of merchant business has been still further restricted by the growth abroad of Government control of the export trade in primary products. State trading is by no means confined to Russia, but has been extending over the commodity trade of many countries. New Zealand, for instance, has instituted State control of the export of dairy produce, although the London end of the trade is still handled by independent importers in London, working in co-operation with the New Zealand Government. Measures of this sort are not merely slump expedients, but part of a permanent policy of State capitalism which is likely to be extended.

Similar tendencies are visible in a number of countries of which, perhaps, Turkey, Iran and even, to some extent, Egypt, are the most notable examples. There has also been a tendency to establish such control on a more permanent commercial basis by decentralisation. Even Russia is transferring responsibility for trade transactions from the State merchant houses abroad (e.g. Arcos and Amtorg) to the various industrial trusts at home. Some smaller countries are moving in the direction of trading through partially State-owned limited companies, rather than official government organisations. The foreign exchange resulting from government export transactions is often retained by the governments for their own needs, and is frequently used for purposes which could not be described as productive.

The commercial efficiency of such government organisations is often visibly less than that of the private institutions which they have supplanted, and for this reason it is often the opinion of the commercial community that they cannot last. It should, however, be

remembered that when a government enters commerce, either directly or indirectly, the commercial incentive is not always uppermost, and social or political considerations may be stronger. Hence the success or failure of these institutions is not likely to be judged by their originators according to the same standards that would apply to a commercial business. In extreme cases, government control of trading may be consciously used to produce an entirely different result to that obtaining under free commercial operation. The foreign trade of Greenland, for instance, has been under government control for upwards of 150 years, and the relative levels of prices of various imported goods have been so regulated, for social reasons, that they are quite different from the scale of values obtaining in the outside world.

These developments, coming on top of the commercial losses which many merchant houses suffered from the collapse of commodity prices and the drastic decline in the total volume of trade in the early part of the slump, have shaken the foundations of merchant business.

From the point of view of the smaller manufacturer, the declining efficiency and importance of the merchant machinery in modern conditions in the conduct of international trade is creating a serious gap. The larger firm has been able to solve its own immediate problems by setting up its own sales organisation abroad, thus contributing further to the decline of merchant business and giving rise to certain tendencies which, from the national viewpoint, are very dangerous, as will be explained later.

The Agency System

For the smaller manufacturer, the alternative method is available of conducting export business through agents, but this system also is open to a number of powerful objections. British manufacturers have generally, during the last decade, made more use of the agency system than most of their foreign competitors. Agents have often been utilised to handle products of which the sale is too specialised or intermittent to be satisfactorily undertaken by merchants, and by firms which are too small or are insufficiently involved in a particular market to justify the maintenance of a directly controlled foreign sales organisation of their own. If a manufacturer, or a group of manufacturers of complementary products, can find an agent with satisfactory technical qualifications and plenty of business initiative, and can succeed in working out satisfactory arrangements for maintaining contact and giving rapid service, the agency system can work well. But in general, the system suffers from many disadvantages, particularly in the matter of personnel. It is in the first place extremely difficult for a small British manufacturer to get into touch with a satisfactory agent abroad. He must usually rely on the advice or recommendation of someone else. The Department of Overseas Trade is prepared to help in this respect, but even so, it is extremely difficult at a distance to make a satisfactory choice, and having made a choice, to maintain satisfactory contact. It is seldom possible for an agent in a foreign country to acquire a wholly adequate technical knowledge of the product which he is selling and which would normally be possessed by the home sales organisation. Owing to political factors, the agent frequently has to be chosen from among nationals of the country, and the language difficulty, especially in the case of service instructions, must, consequently, not be overlooked. In the second place, the manufac-

turer is entirely reliant upon his agent, about whom he may know next to nothing except by hearsay, for advice on marketing problems and requirements abroad. In short, anything which the agent cares to report must be taken on trust, and the manufacturer has no satisfactory means of assessing the reliability of his agent. Moreover, since most agents are compelled, in order to make a living, to take up agencies on behalf of a number of manufacturers whose goods are not necessarily complementary, and may even be competitive, the products of any one manufacturer are not receiving the undivided attention of the agent. Indeed, it is difficult for the manufacturer to know what proportion of the agent's time and attention he is commanding at all.

These difficulties can, of course, be reduced if sufficient attention is given to the problem. Something can be done by the arrangement of regular visits by agents to this country, or visits abroad by members of the home firm. Some firms have made a conspicuous success of the agency system by attention to this point. Similarly, if the agent is kept fully informed of the general policy which the firm wishes to pursue, and prompt attention is paid to his reports and requests, his confidence as a salesman will be increased and an efficient basis for selling can be achieved. Special attention needs also to be given to such questions as the length of credit given by agents to customers, and arrangements for supplying service or filling replacement orders promptly. Difficulties over credits can be greatly reduced if competitors can agree not to use this method of undercutting one another, but to adopt the same practices. Few agents are persons of sufficient substance to assume much of the selling risk themselves, or to be able to hold adequate stocks, although this class has been growing in recent years. When an agent's business becomes large and is able to carry stocks and employ sub-agents, the dividing line between his functions and the functions of a merchant running an agency business if not very distinct.

Satisfactory organisation of such details as these can make the agency system an efficient method of trading in certain goods. But as a general system, it is not foolproof, and the building up of satisfactory arrangements regarding selling methods, the maintenance of stocks and sub-agencies, the preservation of contacts with customers, credit terms, etc., must be the subject of constant care and attention.

Current Problems of Export Organisation

The following position therefore exists as regards the state of export organisation:— The old merchant system has been breaking down, partly from the inevitable effects of the growing complexity of trade, but partly from hindrances to that mobility of funds which is essential to the successful conduct of a merchant business. Large firms have solved the problem of foreign marketing, fairly satisfactorily from their own point of view, by adopting direct selling through marketing organisations abroad under their own control. Many small firms, unable to bear the cost of direct selling, are continuing to conduct their business through agents—a method which, unless carefully organised, is not a very satisfactory method of trading.

Viewed from a wider angle, the effects of these changes are most disquieting. It is axiomatic that the ability of foreign customers to buy British goods is dependent upon their ability to sell their own produce and services, if not to United Kingdom importers, at any

rate in some free world market. The merchants, who were essentially opportunists, were always willing to conduct two-way trade—in fact they were dependent upon it. In so doing, they were serving not only their own interests, but the interests of British export trade in general by helping customers to sell, and thereby providing them with funds to make more purchases from the United Kingdom. Neither the overseas sales organisations of large manufacturing firms, nor the agents who represent small manufacturers are interested in two-way trade. This would not be so serious if the foreign sales organisations of large British firms confined their attention to the marketing of their own manufactures; but they do not.

The Economic Results of Direct Selling

Overseas sales organisations of manufacturers are often characterised by merchants as uneconomic in the sense that they often sell at prices below those which merchants can achieve and even sometimes in the opinion of merchants, "below cost." The essentially long-term investment aspects of such organisations should, however, be recognised as compared with the tendency of merchants to emphasise the importance of a rapid turnover of capital. An overseas sales organisation is usually set up in a territory in accordance with a long-term programme of development. In consequence, the original structure is often larger than the current volume of trade alone would justify, and is not at first self-supporting, so that its fixed costs have to be borne for a number of years by the parent firm. It must be judged as a long-term investment, since the immediate results may be disappointing. Firms which are prepared to set up and maintain an elaborate and efficient sales organisation overseas cannot be condemned *ex hypothesi*. Nevertheless, it must be recognised that some of the indirect consequences of highly-organised export trade by these means are disquieting.

In the first place, the large specialised export organisation is often converted at an early date into a general export trading company. The incentive to do this arises from the fact that the costs of maintaining an elaborate export organisation cannot usually be covered for some years by the profit on the sales of a limited line of products alone. Large manufacturing firms are usually well equipped to extend their export business in this way. They are compelled to maintain large purchasing departments in this country in order to supply their own varied requirements of a miscellaneous assortment of materials ancillary to their main products. Moreover, the larger the quantity of these materials that the purchasing department is able to buy, the lower is likely to be the price per unit and the lower, therefore, the cost of production of the main products of the firm. If the firm maintains a large export sales organisation, the purchasing department will in fact often be able to buy materials surplus to its own requirements and sell the surplus abroad at a profit, thus contributing to a reduction of the firm's own cost of production and helping to cover the fixed costs of the export organisation. In effect, therefore, the large manufacturing firms are encroaching increasingly upon one function of the merchant house—general export business in British manufactures. But they almost invariably fail to adopt the other vital function of merchant business—the function of keeping trade mobile and liquid by making purchases of foreign produce in return. And although unwilling to adopt this function themselves, they are making it increasingly difficult for the merchant to

continue to perform it, by depriving him of part of his export turnover. An organic development of the policy of large concerns with overseas branches or subsidiaries engaging in merchandising other people's goods, which they may themselves buy for their own use to some extent, has been the clearly pronounced tendency to take on agencies, with the object both of reducing their own overheads and of supplying their customers with products complementary to their own. This, of course, encroaches still further on the export business of merchants. Moreover, the merchant can seldom compete with the larger financial resources of the big firm and his profits are reduced by the higher rate of interest at which he has to carry goods in transit. Moreover, such large firms are often in a position to obtain lower shipping freights, as compared with merchant houses, for the bulk of the goods shipped by them, whether their own manufactures or not.

Isolated instances have, of course, occurred of large manufacturers making purchases abroad outside their own line of business, but they are so rare as to be exceptional, and are quite outweighed by the volume of export business conducted by them in lines outside their own range of manufactures. It is important that these firms should realise that they cannot usurp one function of the merchant house without the other, and hope, at the same time, to retain the same goodwill as did the merchants.

Merchant Houses and Local Development

The decline of merchant business through these and other causes has had the serious effect of driving many old merchant firms out of business, and of forcing others to look elsewhere for the profitable employment of their resources. These resources comprise funds, a proportion of which is locked up in foreign countries, and an accumulated wealth of knowledge and experience of the economic and psychological conditions and requirements of the markets in which they operate. This experience, together with the experience of the acceptance houses, has, in the past, represented the overseas intelligence service of British manufacturers, and its dissipation through lack of patronage would be a very serious loss to the country. But in the present circumstances, it is gradually being dissipated. In so far as the merchant houses are attempting to maintain themselves by a reorientation of their activities, they are mostly turning to local industry or agriculture as an outlet for their resources and, in effect, are ceasing to perform the functions of merchants. In many cases, this represents a somewhat desperate speculation from the point of view of the merchants themselves. But in so far as it is successful, it may mean that the accumulated experience which the merchant houses possess is being used to foster industries which enter into direct competition with United Kingdom export trades. This is not so, of course, where merchants are entering local primary production. As has been indicated in an earlier chapter, moreover, the development of local industries is not necessarily undesirable, and to attempt to prevent it may merely be to attempt to put back the clock of economic progress. A better job can be made of local development, however, if it is undertaken in conjunction with, and with the co-operation of, the British manufacturers likely to be most intimately concerned.

Any plan or policy for the improvement of British export technique, therefore, must take into consideration the following factors. The decline of the merchant house threatens to destroy a valuable accumulation of experience of overseas market conditions which

ought to be preserved and put at the disposal of British exporting firms in a way in which they can use it. The increased activities of the export branches of the large manufacturing firms are not, all things considered, providing a complete or adequate substitute for the former functions of merchants, though their efficiency as sales organisations cannot be seriously questioned. The agency system does not meet adequately the requirements of the smaller manufacturer whose needs are not, in fact, adequately met by any form of export organisation at present available to him. The growth of local industries and local merchanting and financial institutions is an inevitable feature of economic development which must be allowed for and co-ordinated in any plan.

Export Methods of Foreign Countries

In formulating future policy, attention must also be paid to the export methods of other countries which come into competition with our own. The principal features of foreign export methods may be examined under the headings of organisation, personnel and credit policy. In organisation, most foreign firms have not developed the agency system to the extent of British manufacturers, but have concentrated more on direct selling and direct representation. At the same time, they have developed to a much greater extent the system of joint representation. It is no uncommon thing for continental firms producing complementary or even competitive goods to combine for the purpose of securing export contracts, where British firms would usually adopt the much more expensive and less forceful method of making separate tenders or sending out separate representatives or agents. This tendency is particularly noticeable in the sale of capital goods. Quite apart from the classical cases of Mitsui and Mitsubishi, which each supply not only an amazingly wide range of goods, but also banking and shipping facilities (and are incidentally buyers of a variety of commodities), the combined activities of a number of German steel and machinery firms—such as Ferrostahl, Stahlunion, Guttehoffnungshütte, Bismarkshütte—with electrical firms like Siemens Schuckert, in a number of individual markets has been most effective. Competing American firms have also on certain occasions in recent years agreed to pool their resources in limited areas—for instance, in certain Near Eastern and South American markets for agricultural machinery—and to adopt the same terms of business. It may also be of interest to note that one branch of British industry—textile machinery—has sometimes co-operated with electrical firms in joint representation and for visits to foreign markets, with extremely satisfactory results.

The Export of Experts

Many foreign businesses benefit as compared with British businesses from the maintenance of a much more active service of direct representatives abroad. In some cases this is due to the fact that poor prospects of remuneration and employment at home act as an incentive to individuals with first-rate qualifications to seek better conditions of work abroad. Owing to the high standard of living in the United Kingdom, this incentive is far weaker where British export trade is concerned. Moreover, unwillingness to serve abroad is, on the whole, increasing as a result of the experiences during the depression of many British subjects working in foreign countries. As the economic situation grew worse, many became stranded and had great difficulty in finding alternative jobs in the United Kingdom. Furthermore, foreign governments have frequently applied pressure to local

organisations which are not run by their own nationals. It is not without significance in this connection that in the last few years the net movement of migrant population in Great Britain has been inwards instead of outwards.

The existence of an adequate supply of trained men willing to serve abroad has obviously a directly beneficial influence on the efficiency of overseas trade organisation. It has, moreover, an important indirect effect to the extent that nationals serving abroad, particularly in backward areas, are capable of influencing public demand, often unconsciously, in favour of the export trades of their own country. A flourishing export trade in goods is therefore assisted in more ways than one by a flourishing export trade in experts. At the present time, altogether insufficient attention is given to the training of personnel for service abroad, nor is the remuneration offered in most cases likely to attract men of first-class qualifications. Recently, however, the newly constituted Institute of Export has been tackling the problem of training export personnel. Although, as regards independent technical consulting services, the standard reached in the United Kingdom is far ahead of anything that other countries have been able to produce, British export industries have been less well served in the supply of technicians for continuous service abroad.

Credit Conditions

One other respect in which competition is felt from foreign firms is in the matter of credits to customers. Such credit may be given directly or it may be given effectively by a number of indirect methods. In many cases the length of credit granted, for instance, on consumers' goods has grown to the point where it cannot be justified on any economic grounds. It would be regrettable if British exporters were to attempt to meet this competition by similar practices. The ability of continental firms to grant extended credit arises usually from the fact that they are heavily subsidised by governments anxious to increase exports at any cost and acquire foreign exchange, Germany and Italy being the most conspicuous examples. It is questionable whether this practice can be maintained without incurring serious losses, which is the best argument against attempting to copy it. The fate of some of the post-war loans by the United States in South America and elsewhere provide an object lesson on a large scale of the consequence of allowing excessive credit for purchases of consumers' goods. But in some cases, it may be necessary to conclude agreements among exporters in order to ensure that the pressure of this kind of uneconomic price-cutting does not demoralise British practices.

Local Colour

Owing to more direct representation, the backing of more active government services and, perhaps more than anything, receptiveness to local colour, continental and American firms are generally far better informed than British manufacturers on the requirements of local taste and psychology, consumer preferences and customs, and local transport peculiarities, which must materially affect not merely the nature of the goods offered, but also the methods by which they are presented. British overseas trade has been conducted in the past too much, as it were, in the English Club, in the seaports and with a "take it or leave it" attitude to the "dagoes" who are the inhabitants of the country and the customers of British trade. Individual instances of failure on the part of British manu-

facturers to meet local requirements occur almost daily. Most of these are relatively trivial, but they typify an ignorance of, and lack of contact with, foreign markets which are symptomatic of fundamental shortcomings. One firm was found to be making a commendable effort to maintain statistical evidence of consumption trends in Central Europe, but has unfortunately, ever since the War, been adding together the import statistics of Austria and Hungary in the belief that the resulting total would continue the series collected for the Austro-Hungarian Empire prior to 1914. Numerous cases have been reported of goods despatched to remote markets in packages quite unfitted to withstand the exigencies of the local climate and local transport conditions; of goods offered under trade marks which were highly offensive to the religious feelings of the country in which they were sold; of other goods selling in Asia Minor under a British trade name which rendered phonetically represented a word in the vernacular seldom mentionable even in a Near-Eastern bazaar. One prominent British manufacturer, not long ago, in response to a request from his agents in Germany for sales literature, sent large quantities of leaflets in English which had been originally got out for the home market and were heavily headed with patriotic recommendations to "Buy British." It is only by accident that such mistakes are revealed, but their effects on local goodwill are apt to be disturbing, especially where the psychology of the consumer is primitive. They can be avoided only if the manufacturer sets out to avoid complete ignorance of the customs, peculiarities and preferences of the markets which he is trying to serve. In case it should be thought that such matters are of too little importance to merit much attention, it may be pointed out that the greatest potential markets of the future lie among the large percentage of the world's population where the standard of living is low and a primitive psychology is the rule rather than the exception.

Consumption Trends in World Markets

Moreover, over the world as a whole, the requirements of consumers are becoming more exacting and need a corresponding increase in the intensity of sales methods employed to meet them. The consumer becomes more discriminating in the matter of the quality of the goods offered to him as his standard of living rises and as his range of choice increases with increased competition in world markets arising from the spread of manufacturing industry. He also demands adequate stocks from which to make his choice, or channels whereby he can communicate his particular wants to the manufacturer. He also wants efficient ancillary services such as credit and the prompt execution of repeat orders. Above all, the foreign consumer must nowadays be approached in his own language, and prices and measurements must be quoted in currencies and standards which he is accustomed to use or can easily understand.

The Importance of Goodwill

In short, the rise in the average standard of living and education the world over and the spread of manufacturing industry is slowly transforming the world market from the "sellers' market" of the nineteenth century into a "buyers' market" in the case of finished goods. The old methods of export selling are, accordingly, not good enough, and exporters who wish to maintain their position in world markets must make more intensive efforts to

meet the more exacting requirements of the modern consumer. Many of these factors are fundamental results of economic growth, and though they may have been stimulated by the depression, were probably inevitable in any case. The conclusion to be drawn is, therefore, that goodwill must be cultivated at all times, irrespective of booms and slumps.

In the present state of export organisation, the difficulties which face the average small manufacturer in surmounting these obstacles are enormous. When, in addition, he is faced with other impediments to trade and to the repatriation of the proceeds of his foreign sales in the shape of import and exchange restrictions it is not altogether surprising that he should prefer to concentrate on the home market. From the national point of view this attitude is extremely dangerous. As the inevitable process of development of local industries abroad continues to eat into British export trade in the traditional staple exports, it is imperative that new lines should be developed. The industries capable of supplying new lines are usually the newer industries, and most of them are generally composed of small firms which, for the moment, have an easy and plentiful market at their doors. Concentration upon producing the best financial results in the short period leads to concentration of sales activities in the home market and the neglect of the more difficult export market. If any attention is paid at all to overseas trade, it is directed to Empire markets where ties of language and currency make trade relatively easy to conduct and where profits are good and a large part of the market is protected by preferential tariffs. Apart from the damage to national interests inherent in this attitude, long-period considerations should show that prosperity and expansion in the home market may not endure indefinitely, and that at some future date the development of export markets may become an urgent necessity. In these circumstances, the devotion of a minimum of attention to overseas markets, even though it may prevent the maximisation of profits in the short period, would seem to be an act of ordinary commercial prudence on the part of industrialists. There was a time in 1930 and 1931 when considerable efforts were being made to develop overseas markets by British manufacturers, but with the return of prosperity at home and the increasing pressure of rearmament, these efforts are being abandoned by many firms. It is time that they were resumed. But it cannot be expected that manufacturers, and especially small manufacturers, who are already well employed at home, will pay serious attention to export markets unless the machinery of exporting can be made to work more easily and efficiently. Moreover, the small manufacturer is, of all members of industry, the least well served by the present machinery, whereas in the national interest, it is the small firms in the newer industries which particularly need every encouragement to export, in order that the vitality of British export trade shall be maintained and improved by continued diversification and development.

Helping Customers to Sell

Many large firms have already realised that the requirements of world markets have become more exacting, and have, as already mentioned, adopted intensive methods of sales organisation in an admirable attempt to improve distributive efficiency. But it must be realised that the presentation of goods in their most attractive form at the lowest possible price will avail little if the consumer has not sufficient purchasing power to buy them. And the amount of purchasing power which is possessed by the consumer is

directly dependent upon his ability to dispose of his own goods in world markets. When, therefore, British manufacturers have organised export sales branches with the maximum efficiency, they have only gone half way towards the establishment of a flourishing export trade; it is in their own interests to go further and to assist their customers in turn to sell their own produce. This function was performed automatically in the past by merchant houses whose interests were, and still are, in two-way and multilateral trade. In encroaching increasingly upon the export side of merchant business, large firms have considerably weakened the effectiveness of merchant houses in performing this function—these have suffered also from other general causes outlined earlier—but have not provided a complete substitute.

The difficulties of devising adequate new machinery, on the basis of the old, to meet the varied and sometimes very different requirements of all types of exporting manufacturers, large and small, in the face of modern conditions, are bound to be great. The following suggestions are intended to indicate ways in which progress can be made, utilising the export experience and other assets which have accumulated in the past.

The incentive to British exporters to assist their customers to sell, for motives of their own self-interest, must be broadly interpreted in terms of British export trade as a whole.

British manufacturing firms, however large, may well meet with serious difficulties in attempting to do so directly, that is to say, by taking the produce of their customers and themselves disposing of it on world markets in the manner of merchant houses. They are probably better able to do this than many foreign manufacturers who have attempted it, in view of the scope of their own selling organisations. If, moreover, they are able to undertake the merchanting on the export side of British goods which they do not themselves produce, it might be thought that the extension of the same technique to the merchanting of the products of their principal customers would not present insuperable difficulties. Nevertheless, they have always been reluctant to pursue to its logical conclusion the displacement of merchants which they have already effected on the export side of the trade. The existing selling organisations of manufacturers are, in fact, highly specialised for one-way selling purposes. For the handling of return trade, additional machinery would probably need to be created. And the extension of operations to the merchanting of miscellaneous products originating abroad might well antagonise important customers of the parent firm in the United Kingdom.

Participation in Foreign Development

Much, however, can be done indirectly. British firms can, for instance, help themselves and their customers by assisting the legitimate economic aspirations of foreign countries, instead of deprecating them. It is true that the development of domestic industries to produce staple goods which were formerly imported from Great Britain may take place at the expense of British exports of these goods. But the point to remember is that such development is taking place already, and cannot be prevented, but the adverse effect on British industry can be minimised if by active co-operation development abroad can be harmonised with British export policy. It is never more important than in connection with such developments, that British export trade should be considered in its

widest possible meaning. If the growth of foreign industries is allowed to proceed, as it otherwise will unless careful attention is paid to the question, without the assistance of British finance, capital equipment and technical skill, the present export trade in certain lines of goods will be lost to British firms in the markets in question without any compensating advantage. If, on the other hand, manufacturing industries abroad are assisted to grow on sound lines with active participation by United Kingdom manufacturers, the inevitable decline in the export of goods from the United Kingdom should be compensated for by increasing invisible exports in the shape of receipts of profits and should be accompanied by increasing exports of capital and other specialised goods. Moreover, if the situation is subject to control in this manner, the transition in British export policy should be made much easier.

Certain firms have already gone to some lengths in this process, though it has been a much more notable feature of economic development in the British Dominions—where the financial return has often been handsome—than in foreign countries. Some firms have, however, entered foreign markets on this basis—notably in the United States, and the more important continental countries such as Germany.

It is true that the enterprise of British firms in setting up foreign subsidiaries has not always been rewarded. Some of the plants which were set up just before the depression got into difficulties owing to trade and exchange restrictions before they were properly established. Such experiences will inevitably make British manufacturers more cautious in their attitude in future, but they do not affect the validity of the principle.

Trading Companies for Marketing Overseas Produce

The second suggestion concerns the possibility of setting up trading companies for the purpose of assisting foreign customers in the vitally important matter of selling their own produce. We have shown that the large firm, selling through its own direct sales organisation, has not the advantage of the merchant of being also an exporter from the markets to which it sells. For although the big firm will sometimes deal in lines other than its own produce, it is usually unwilling to embark on ventures in trades which it does not understand (an attitude which is entirely comprehensible), unless there is an immediate prospect of profit. In the case of exports from this country, the addition of an extra line of goods to the selling range is often made as a supplement to clinch an order in the line which the firm itself produces. The marketing of complementary products may not require much additional technical knowledge and the increased turnover will help to cover the fixed costs of maintaining an elaborate organisation. To give a purely hypothetical example, electric cable, switches and fittings might be bought for selling to foreign customers in order to strengthen a business which was concerned primarily with producing and selling electric lamp bulbs. In this case the connection is obvious. It is not so obvious, but hardly less true, that the possibilities of sales will be far more widely extended if the potential customer can be assisted to place abroad the produce of his own country.

It has already been shown that the development of overseas countries presents British exporters with many opportunities—in the first place of large orders for capital goods,

then, as the standard of living rises for better class consumer goods, and finally, as the industrialisation of the market proceeds, for industrial specialities. The suggestion made here is that facilities should be created by which the interests of the British investor, the British exporter and of the developing country can be co-ordinated to the greater profit of all parties. The possibility should be explored of collaboration between British interests, whether industrial, financial or commercial, concerned with the development of certain territories as sellers of goods and services, and the national authorities of the territories in question. Such collaboration would be directed towards the establishment of trading companies whose function would be to organise the sale of export produce of the territory in world markets. In proportion to the success of these companies, foreign exchange would become available for the development of the country on the basis of imports of British goods and services.

Such companies would fill the gap caused by the decline of merchant houses in the export organisation of less developed countries. These countries have, it is true, attempted to form export companies of their own. These tend to be somewhat crude in structure and to lack the most elementary and essential servicing capacities. But in association with the resources of the United Kingdom, they would have at their command financial assets and administrative and technical experience which they could not dream of achieving themselves for many years. The benefit to British visible and invisible exports would be obvious.

It should, however, be stressed that the aim of such trading companies would not be to put through barter deals, although it is true that they could, if necessary facilitate them. But such deals, from their bilateral nature allow of only a limited and uneconomic expansion of trade. The trading company would therefore sell not only to this country, but to any country where currency is freely negotiable, and would in this way assist the development of multilateral trade.

A Hypothetical Example

It may perhaps be easier to explain this proposal if a brief sketch is given of a hypothetical trading company as it would appear in full operation.

Utopia, let us suppose, is an undeveloped country which is known to have considerable mineral reserves in its wild and inaccessible mountains; while in the coastal region there are already native industries engaged in working up milk and honey. Financial and industrial interests in the United Kingdom would much like to develop the mineral resources. British manufacturers of, for instance, cement and railway material would be highly interested in a scheme of development as an outlet for their own products. But the Utopian Government is quite reasonably reluctant to allow the development of the country to be taken entirely out of the hands of its own nationals; while as Utopia is a poor country and the milk and honey industries find difficulty in making a satisfactory export market for themselves, development on the basis of internal capital resources must inevitably be long delayed. The British interests see the justice of the Utopian point of view but do not want to lose a valuable market; they therefore agree that the Utopians must be helped to help themselves. Accordingly a joint Anglo-Utopian Trading

Company is set up in London for the purpose of marketing Utopian produce, advising on packing and grading, providing finance against shipment and acting as a buying organisation for the capital goods needed for the Utopian development programme. While it might seem a more direct method that the joint trading company should also take an interest in the exploitation of the resources for which Utopia needs the capital goods, there are several arguments against it. First, Utopia being a weak country is psychologically opposed to foreign investment in its primary producing industries as this clashes with a strong sense of national prestige. In the second place, it is desirable for the sake of building up and maintaining goodwill, to bring Utopian nationals into direct contact with London and its methods of business and the service facilities which it can offer. The joint company would have many opportunities for trading on a multilateral basis and this would draw Utopia away from the simple concept of bilateral trading on which it has been forced to base its economy during a time of exceptional stress and depression.

The general scheme would be worked out at all times in co-operation with the Utopian Government, who are naturally only willing to allow the development of their country according to their own ideas of its best interests. The Utopian Government will probably insist on a certain measure of control of the company's operations and probably on the provision by local interests or by themselves of part of the capital and administrative staff of the company.

Such officials and technical staff as are sent to Utopia would be provided by this country and although acting, since the company is to make a profit, only in the interests of efficiency, would naturally tend to be good selling agents for the country which they know best—that is to say their own. In this way, the British industrial firms interested in the development of export trade to Utopia will be ensuring that such trade is developed on the only basis which is permanent and worth striving for—mutual goodwill and satisfaction on the part of the consumer.

Many branches of British industry and commerce would be interested in the development of Utopia and might, therefore, be expected to participate in the formation of a trading company of this sort. Large exporting manufacturers of capital and consumption goods and contracting services should have an obvious interest in any organisation which by encouraging two-way trade makes easier the task of their own selling organisations. London financial institutions should see in it a method of developing a condition of prosperity in which the investment and trade financing facilities which they provide can find an outlet with adequate security. There is also room for the British merchant firm which has been struggling in the face of increased international difficulties and increasing competition in the import trade from the direct selling activities of large British manufacturers, to maintain a reasonable trade in selling Utopian export produce. In so far as commodity markets have grown in complexity and already compelled merchant houses to specialise in order to maintain a satisfactory standard of service, the participation of merchant houses in any such trading company would, in fact, be essential.

There are obviously great practical difficulties in the organisation of a company of this size and of such complexity. For a beginning, it would have to be not only on a

small scale, but might possibly have to be limited to an organisation created for the purpose of financing a particular large contract or group of complementary contracts. But the primary function of the trading company would remain undisturbed—to act as an agency for the finance and organisation of trade by assisting to provide outlets for the primary produce of countries in the course of development and by providing technical and financial assistance. But such a company would be capable of growing to take an important part in securing the orderly development of the overseas territory on a co-operative basis. That the whole concept is not alien to modern trends of commercial development is illustrated by the fact that a few countries which have met with exceptional difficulties in placing their exports and developing their resources are already known to be feeling their way towards such a technique.

Some such efforts will soon have to be made in order to bring up the standard of organisation and efficiency in the marketing of the produce of overseas countries to the level which is being achieved in the export of manufactured goods by the largest firms. Otherwise there is the danger, the reasons for which have been described earlier in this chapter, that import and export trade will become completely divorced from one another, with disastrous consequences for the volume of trade in general.

The functions of an institution such as has been described above would be wider than those of any single type of organisation at present in existence. Something of the kind exists in part in the great commercial combines which are largely responsible for the handling of Japanese foreign trade. The growth in importance of such concerns as Mitsui and Mitsubishi is largely the accidental result of peculiar features of Japanese economic development as a whole, whereby the control of economic activity was from the first concentrated in a few hands. The wide scope and ramifications of these combines makes it a relatively easy matter of administration to combine intensive selling methods with an active policy of two-way trading. This system has not been developed, however, primarily with the idea of expanding export trade by assisting customers to sell; it has been rather that the urge to obtain adequate raw materials has compelled Japan to develop a highly organised export system. What matters, however, is that the machinery used is well adapted to secure the efficient organisation of two-way trade in close collaboration with manufacturing industry.

Loose Consortia for Export Manufacturers

The above suggestions apply mainly to the operations of the larger industrial firms. A somewhat different organisation would be needed to meet the requirements of smaller firms. Most of these have not, acting on their own account, sufficient resources to develop an intensive system of export selling. For the most part, they are likely either to employ the agency system which may or may not work satisfactorily according to their success in organising this difficult method of trading within the limits by which it is circumscribed; or else, they may be taking only a minor responsibility in organising their export sales by selling at second hand through a merchant house. For firms dealing in specialised capital goods the most promising method of development would seem to be in combination—through joint sales and development associations for specific products and markets.

Loose *ad hoc* consortia of this type between a number of firms producing complementary and non-competitive products for the purpose of dealing with specific schemes of development, could command resources which individual firms cannot provide. This would be so particularly if such consortia could be linked to merchant houses and merchant banks. Merchant houses can contribute their resources of local knowledge and local funds, and can provide a live contact direct with the consumer. Banks can provide credit, if the conditions are suitable. The combination of the technical resources of industry with the commercial and financial resources of merchant houses and merchant banks would result in an organisation which none of them could approach in competitive strength if acting alone. British manufacturers anxious to sell abroad are handicapped by lack of local knowledge and inability to provide credit, if required. Merchant houses possess local knowledge and have local funds to invest, but are often devoid of the technical knowledge necessary in local development. Banks have funds to invest provided that the security is adequate and the project is economic. A foreign country may require, for its development needs, capital goods and special finished goods and possibly raw and semi-manufactured materials. It may be benevolently disposed towards the United Kingdom and prepared to purchase its requirements from British manufacturers if they can provide service even approximately as good as their competitors. Individually manufacturers may be incapable of making the most of this situation. Their means of negotiating may be imperfect or they may have to insist on payment in cash. Acting together as a consortium, in association with a merchant house and a bank, they could afford direct representation for purposes of negotiation, survey the prospect in more detail, and possibly arrange for the purchases to be made on credit terms. Moreover, a consortium can speak and negotiate with more authority and is on surer ground, particularly if it acts in conjunction with a well known and respected merchant concern, than the representatives of a number of individual manufacturers working independently.

The idea is not, of course, a new one. In fact it has often been applied in the building of capital works such as power stations which require the co-operation of a number of manufacturers. It has been employed by British firms in China, and by Continental and United States firms in South America.

Trading by means of consortia need not be confined to trade in complementary capital goods or to British firms only. It can be employed also for consumers' goods and in competitive lines and can be international in scope. The difficulty admittedly occurs in forming consortia of competing firms of convincing the potential members that the future of their export trade in a certain market lies in co-operation rather than competition. Numerous attempts at organising co-operation have broken down because of the short-sighted attitude of a potential member whose collaboration is vitally necessary. But old rivalries can be conquered by the appreciation that only by combination and association with the local commercial experience of a merchant house can the resources be commanded which are necessary to cover the market with adequate efficiency under modern conditions. Moreover, if such associations prove successful when confined to British exporting manufacturers, there is no reason why efforts should not be made eventually to strengthen them by reaching agreements with local industries or exporting firms of other countries in the same line of business. But in associations of competitive manu-

facturers, care must be taken to ensure that selling policy is based always upon providing the best service to the consumer, and the temptations of monopolistic exploitation must be resisted.

The practical advantages of joint selling lie in the avoidance of duplication of activities and the greater efficiency of service provided where resources are pooled. Centralisation of stocks, showrooms, advertisement and service arrangements produces a more efficient organisation for selling than the divided efforts of many firms, however enterprising. The agreement of standard practices in such matters as terms of credit enables activity to be diverted from negative measures of competition to the task of increasing sales by measures of active trade development.

Using the Experience of Merchant Houses

These results can only be achieved from within—that is to say by the efforts of British industry and of British commercial and financial institutions to appreciate the more exacting requirements of modern trade and to mould existing institutions to fit the conditions of the times. In any such process, the merchant houses must play a leading part. In fact, these developments can only come about if a strong initiative is given from some direction, and it would come most appropriately from the merchant community. The decline of purely merchant business of the old type is described in some detail earlier in this chapter. The merchant house provided admirable machinery for the original development of areas which had been virtually untouched by the products of large-scale Western industry. It would now appear that the decline of the merchant, acting purely on his own account is an inevitable feature of economic development as soon as the market has passed through its first period of expansion. As soon as the first flush of market expansion is passed, it would seem inevitable that manufacturers should seek to employ in export markets, with the appropriate modifications, the methods of sales expansion which they have learnt to use in the home market. Merchant business is, therefore, likely to flourish only in territories or in products which are being newly developed, after which the manufacturer will tend to take over increasingly for himself—apart altogether from hindrances to the conduct of merchant business arising from other causes. Yet the merchant has much to teach the manufacturer regarding local markets and local conditions. The experience built up by the merchant profession is invaluable to the British export trade if only it can be placed more directly than hitherto at the disposal of industry. It must be the object of any new type of export organisation to make this experience more fully and readily available—to apply it differently from the way in which it has been applied in the past, in order to meet new conditions. The types of export organisation which have been outlined above could only be built by years of painful effort if there were no existing nucleus round which they can be formed. There is however available this accumulation of British commercial experience which no other country possesses in the same degree, which is alone capable of forming the backbone of any of the types of trade organisation envisaged. Under existing circumstances this experience is being slowly dissipated, but the machinery by which it is being replaced is not, when viewed from every angle, a complete substitute. Hence the necessity for bringing to bear upon the problem consideration of all the aspects and requirements of the ideal commercial machinery with a view to building an adequate new structure.

VI. GOVERNMENT ASSISTANCE TO THE EXPORT TRADE

Summary

(i) Government assistance to the export trade has been considered only in so far as it concerns the improvement of the efficiency of exporters through the organisation of commercial intelligence services and of government commercial agents overseas. This definition excludes the stimulation of exports by subsidies which serve the purpose rather of neutralising the consequences than of removing the causes of inefficiency.

(ii) The organisation of the government commercial intelligence service in this country did not begin effectively until the foundation of the Department of Overseas Trade and the reconstitution of the Commercial Diplomatic Service and the Trade Commissioner and Consular Services in 1918.

(iii) The Department of Overseas Trade is a joint sub-department both of the Foreign Office and of the Board of Trade, and exists to assist exporters with their day-to-day difficulties. It is not charged with the direction of foreign commercial policy, which remains the function of the Commercial Relations and Treaties Department of the Board of Trade. The relationships as between the Department of Overseas Trade, the Board of Trade and the Foreign Office on the one hand, and Commercial Diplomatic Officers, Trade Commissioners and Consuls on the other, are somewhat complicated owing to the necessity of avoiding the waste of inter-departmental overlapping and omissions.

(iv) The Department of Overseas Trade sets out to advise British manufacturers wishing to establish contact with overseas markets on a variety of matters. Commercial Diplomatic Officers and Trade Commissioners are, in a sense, the overseas agents for the collection of information and the assistance of travelling representatives.

(v) The gross expenditure on the maintenance of the services of the Department of Overseas Trade amounts to little more than one-tenth of one per cent of the value of British exports. Expenditure has, however, been fairly well maintained in the past few years in spite of budgetary difficulties, and was, on balance, higher in 1936 than in 1929. The United States Bureau of Foreign and Domestic Commerce, which is not dissimilar in organisation from the Department of Overseas Trade, has, at times, been much more liberally financed in relation to the total value of American exports, but expenditure was heavily curtailed during the depression. The same conclusion results, if American expenditure on the Foreign Commerce

Service is compared with British expenditure on the government Commercial Services overseas.

(vi) Since the value of a government commercial service depends in a large degree upon its permanence, any increase in the D.O.T. vote to a level which could not be maintained at all times must be considered uneconomic. Nevertheless, the amount at present spent on trade promotion activities is very small in relation to the total volume of trade, and even if the vote of the department were to be increased by 50 per cent, the additional cost to the exchequer would be quite outweighed by the improvement in service which the department could provide.

(vii) In particular, lack of staff and of finance appears to prevent officers overseas from travelling sufficiently to organise proper contacts and to leave the higher ranks overburdened with routine work. It is also a pity that diplomatic routine should sometimes necessitate the transfer of commercial diplomatic officers to new posts, since personal contacts take time to build and continuity is an important factor in the efficiency of the commercial service.

(viii) The D.O.T. organisation at home is handicapped by insufficient and unsuitable accommodation, which affects the efficiency with which its day-to-day business is conducted. Its periodical publications compare unfavourably at the present time with those, for instance, of the United States Bureau of Foreign and Domestic Commerce. Its services could be made more complete and useful in certain directions, without exorbitant expense—for instance, by the institution of a commercial library and a competitors' museum.

(ix) The services of the Department of Overseas Trade compare particularly badly with those of the United States Bureau of Foreign and Domestic Commerce in the matter of the information on foreign production and manufacturing activities which is published by the latter. The shortcomings of the Department of Overseas Trade in this connection appear to be due partly to a tendency to specialise overmuch on a geographical basis and partly to the rigidity with which policy regarding imports is reserved to the Board of Trade. The Imperial Institute does invaluable work, within the limitations of inadequate finance, on Empire sources. There is a good case for the extension of this work to other fields.

Government assistance to exports is a wide subject, which by itself would provide material for a long report, but in this chapter we propose to discuss it only from one specialised aspect—from the aspect which concerns the improvement of the efficiency of exporters through the organisation by Government of commercial intelligence services, and through the action of Government commercial agents in overseas countries. This study entails also some consideration of the organisation of departments concerned with foreign trade generally, but, in any case, it seems probable that a short description of the Government organisation may be useful to traders.

Our definition excludes the increasing use of Government subsidies for the purpose of stimulating exports, a method which can hardly be described as serving the purpose of improving the efficiency of exporters, but which has the effect rather of neutralising the

consequences than of removing the causes of inefficiency. Subsidies are generally given owing to political expediency or in accordance with what are regarded as higher national interests, and cannot be considered as a basis of a long-term policy towards foreign trade which is worthy of any serious consideration.

The Evolution of British Government Commercial Services

Until the end of the nineteenth century, Government policy towards trade in general was one of *laissez-faire*, and British export trade was not in any need of assistance owing to the virtual monopoly in large-scale manufacture which Great Britain enjoyed, and the eagerness with which British goods were absorbed by foreign consumers. It is not therefore surprising that the Foreign Office did not appoint its first Commercial Attaché until 1880; in 1900 a small Commercial Intelligence Branch of the Board of Trade, and in 1908 a Trade Commissioner service in British countries overseas, were created. The Consular service was already collecting commercial information on behalf of the Foreign Office and the Board of Trade. Up to 1914 the personnel employed in such commercial activities was small and their usefulness was limited, owing to the size of the territories which the meagre staffs had to cover.

It was realised, even before the War had finished, that special efforts would have to be made to restore British exports, in view of the dislocation of old trade channels which had taken place in the period 1914 to 1918, owing to the pre-occupation of all British industry with war-time requirements. Accordingly, the Commercial Intelligence branch of the Board of Trade was reorganised and expanded and finally "floated off" in 1918 as the Department of Overseas Trade. At the same time, the Commercial Attaché service was enlarged and reconstituted as the Commercial Diplomatic Service, and the Consular and Trade Commissioner services were also enlarged. Conditions of service were also considerably improved.

The problem which confronted the Government, and which the establishment of the Department of Overseas Trade attempted to solve, is one which still arises on any study of Government assistance to export trade. First comes the problem of deciding what assistance can, within the limits of available finance, be given to exporters, and what is the authority which is to issue instructions to the overseas services. Secondly, there is the problem of the organisation and constitution of the overseas services themselves.

Co-ordination of Departmental Activities

The fundamental administrative difficulty is that while all activities of Government officials in foreign countries must clearly be under the control of the Foreign Office, instructions on commercial matters and the dispositions for passing on advice and information to the trading community must equally clearly be settled only in the closest collaboration with the Board of Trade, the department responsible for all commercial and industrial policy. A proper delimitation of functions is absolutely essential to avoid waste of effort in inter-departmental overlapping and omissions.

To meet the difficulty of organisation, a new department was formed to deal with overseas commercial information. This was the Department of Overseas Trade. The

Department of Overseas Trade, it must be stressed, is a joint sub-department of both the Foreign Office and the Board of Trade, and it is an integral part of both organisations; there have been cases of interchange of staff. It is, however, housed in a separate building. It gives instructions to its agents in foreign countries in the name of the Foreign Office, and in the Empire in the name of the Board of Trade. The political head, the Secretary of the Department of Overseas Trade, has the rank of a Parliamentary Secretary at the Board of Trade, and performs some of the duties of a Parliamentary Under-Secretary at the Foreign Office, while the permanent head, the Comptroller General of the Department of Overseas Trade, is appointed jointly by the Secretary of State for Foreign Affairs and the President of the Board of Trade. This form of organisation was adopted in order to obviate all possibility of friction between the two parent departments over the administration of their offspring.

In the case of Empire countries, the instructions, as mentioned above, are issued in the name of the Board of Trade, and the necessary consultation with the departments responsible for inter-Imperial policy, the Dominions Office, the Colonial Office and the India Office, is carried out by the Board of Trade and Department of Overseas Trade, either jointly or separately as occasion arises.

The Department of Overseas Trade is not charged with the direction of foreign policy, either commercial or political, which remains the function of the appropriate section (the Commercial Relations and Treaties Department) of the Board of Trade and of the Foreign Office, respectively. The Department of Overseas Trade exists to assist exporters with their day-to-day difficulties, and to this end is empowered to issue instructions to Commercial Diplomats, Trade Commissioners and Consuls. Since the Department of Overseas Trade is a section of the policy departments and is subject to their instructions in matters of policy, there is no possibility of a clash between day-to-day action and long-term policy.

The agents of the Department of Overseas Trade in foreign countries are the Commercial Diplomats (Counsellors in the highest rank and Secretaries in the three lower ranks) who are attached to the Embassies and the Legations, and the Consuls: and in the Empire the Trade Commissioners (T.Cs.) and Imperial Trade Correspondents (I.T.Cs.)—these latter only at less important posts.

The Imperial Trade Correspondents are not salaried officials, although they sometimes obtain an allowance to cover expenses, but are usually local residents, or, in Colonial territories, sometimes officials of the local government who carry out their I.T.C. duties as well as their ordinary work.

The duties of Commercial Diplomatic Officers and Trade Commissioners are entirely economic, but Consular work varies according to the post. The Consuls are under the orders of the head of their Mission, but the Commercial Diplomatic Officer has, under his Minister, general control of their commercial work. In matters of policy, the instructions, although originating perhaps with the Treasury or the Board of Trade, are sent to the C.D.O. through the Foreign Office—major matters of policy or full dress representations being generally handled by the Minister or Chargé d'Affaires himself.

In the Empire, Trade Commissioners are not on the staff of the High Commissioners, who are the representatives of the U.K. Government, in those countries where there is a High Commissioner. The Trade Commissioners receive their instructions from the D.O.T., although again in matters of policy that department would take the advice of the appropriate department in London.

The Consular and Diplomatic Services are recruited from the examinations named after them. The C.D.Os. and the T.Cs. are recruited from the headquarters staff of the Department of Overseas Trade and from the Consular Service, although in services as young as these two are, there are naturally still officers who entered from other occupations. The Department of Overseas Trade headquarters staff, in the highest grade, is recruited from the Consular examination. The material provided in this way for the overseas services is undoubtedly of excellent quality, in so far as a stiff examination can check quality. It should be stressed that the Diplomatic, Consular and Commercial Diplomatic services are three separate services. There are instances, however, although they are not frequent, of Consuls and C.D.Os. who have attained Ministerial or even Ambassadorial rank.

The D.O.T. is charged with the general administration of the C.D.O. and the T.C. Services, and is consulted by the Consular department of the Foreign Office on Consular appointments, so that due weight may be given to commercial considerations. The Department of Overseas Trade also undertakes the technical work of the British Government's participation in exhibitions and fairs, and organises the British Industries Fair. It is also responsible for the organisation of Trade Missions. Both these activities are regarded as forming a part of general trade propaganda, although, naturally, exhibition work has other aspects.

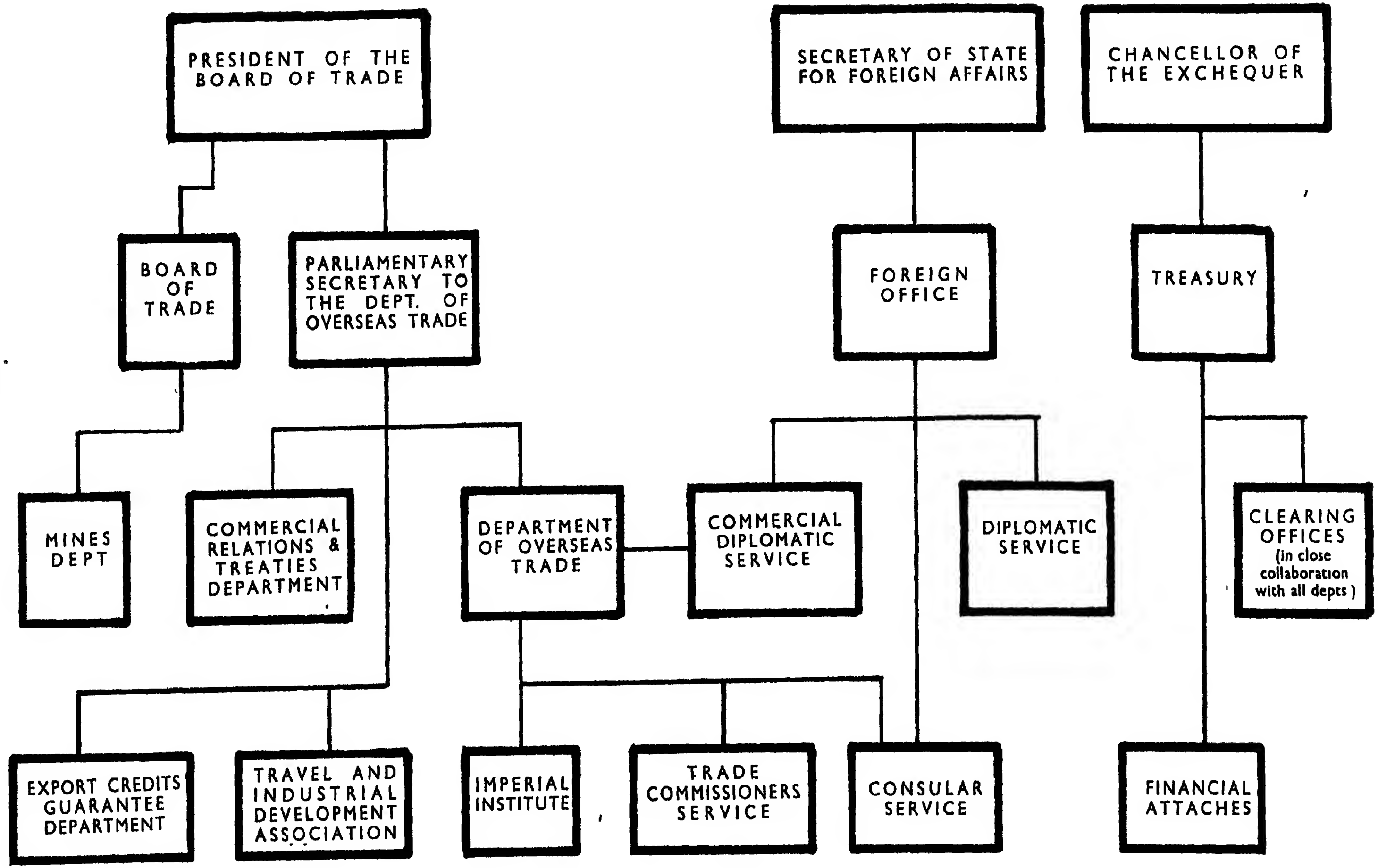
The Secretary of the Department of Overseas Trade is responsible also for the Commercial Relations and Treaties Department of the Board of Trade, and for the Export Credits Guarantee Department.* He is also Chairman of the Executive Committee of the Travel and Industrial Development Association of Great Britain and Northern Ireland and in charge of the Imperial Institute, a body principally concerned with the compilation of statistics concerning Empire products and research into their uses, although it is charged with the development of inter-Imperial trade generally. The Imperial Institute is financed by contributions from Empire governments and, to a certain extent, from private individuals. Its value is, unfortunately, insufficiently appreciated and its financial resources are too limited. The position of the Secretary of the D.O.T. and the organisation of departments under the Board of Trade (see chart on page 155) enables the work of the different departments dealing with overseas trade matters to be co-ordinated.

For completeness it should be added that shipping matters are decided by the Mercantile Marine Department of the Board of Trade, and matters relating to minerals, including coal, by the Mines Department, which is a sub-department of the Board of Trade.

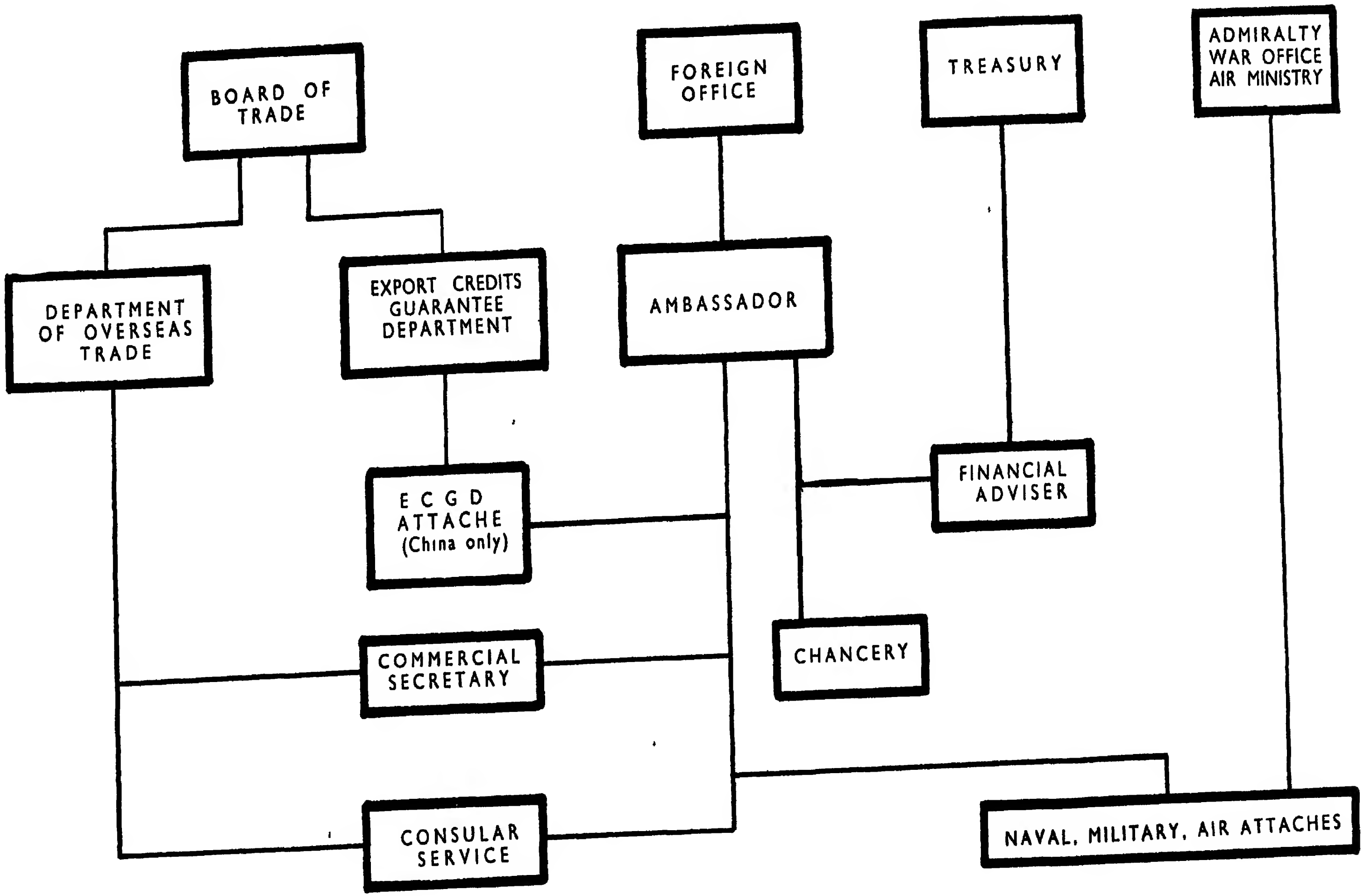
Charts on the next two pages show in pictorial form the relationships between the foreign trade departments of the government and the organisation of a typical Embassy.

* This Department, which has for some years been independent, is discussed more fully in Chapter VII.

I.—ORGANISATION OF GOVERNMENT DEPARTMENTS MOST NEARLY CONCERNED WITH EXPORT TRADE.



II.—ORGANISATION OF EMBASSIES.



Functions of the Department of Overseas Trade

The general method by which the Department of Overseas Trade seeks to fulfil its function of promoting British exports is by the collection and dissemination of commercial information, and by the efforts of its overseas officers, not only in the collection of information but also in "pushing" particular cases.

The type of information which the Department of Overseas Trade sets out to provide is as follows:

Advice is given to British manufacturers wishing to establish contact with overseas markets, whether by setting up a branch selling organisation or by the appointment of a local representative or agent. Such advice includes information on the standing, reputation and efficiency of agencies operating in foreign markets, and, indeed, of all foreign firms. Information is also available on trade and other statistics, tariffs and trade legislation, restrictions on commercial travellers, trade marks, shipping and transport services, local methods of marketing and distribution, quotas and import licences, exchange restrictions and credit conditions, competitive and market conditions, and contracts open. The field covered is, therefore, very large. Much general information is published periodically in a series of reports on conditions as a whole in individual countries. These are compiled by the principal Commercial Diplomatic Officer or Trade Commissioner in each country. This general information is supplemented by the Special Register Service, under which any firm can receive regularly and immediately information from officers abroad which would not ordinarily be made public. With the exception of the Special Register Service and published reports, for which a small annual charge is made, the Department of Overseas Trade's services are free.

C.D.Os. and T.Cs. are charged with reporting on developments in economic conditions, on foreign competition, and on changes in market conditions. They must answer enquiries on specific points sent to them by the D.O.T. or by private firms directly. They also assist any representatives who may be travelling in their territory, this being one of the most important of their duties. At regular intervals they have periods of duty in the United Kingdom, when they are available for consultation by firms interested in their territory. These periods of home duty include visits to the provinces, and enable C.D.Os. and T.Cs. to keep in touch with developments in the United Kingdom.

The home organisation of the Department of Overseas Trade is specialised in two main divisions—geographically and industrially—so that, on the one hand, expert knowledge of conditions in each market is constantly made available, and on the other hand, contact is maintained with each major branch of industry in the United Kingdom.

The Finance of the British Commercial Information Services

The field which the Department of Overseas Trade attempts to cover is vast and, on general grounds, it is difficult to believe that the finance available at present is fully adequate for the task which a Government Department of this type might undertake. On the other hand, a commercial information service by Government must not be subject to fluctuations with the buoyancy of the revenue. It is in times of depression and

financial stringency that it is most useful. We do not therefore advocate any extension of the D.O.T. vote to a point which cannot reasonably be expected to be maintained at all times. But nevertheless, consideration might be given to the possibility of expanding the D.O.T's. operations.

Annual Vote of Expenditure for the Department of Overseas Trade*			Total Exports of British Merchandise		D.O.T. Expenditure as Percentage of Export Trade	
Years ending March 31st	Gross	Net†	Calendar Years		Gross	Net
	£	£		£		
1929/30 . .	515,092	378,633	1929	729,349,322	0.071	0.052
1930/31 . .	628,035	502,972	1930	570,755,416	0.110	0.088
1931/32 . .	519,957	424,507	1931	390,621,598	0.132	0.107
1932/33 . .	517,128	375,773	1932	365,024,008	0.146	0.103
1933/34 . .	497,108	365,478	1933	367,909,052	0.108	0.099
1934/35 . .	562,890	421,530	1934	395,985,521	0.142	0.106
1935/36 . .	574,255	417,827	1935	425,834,428	0.135	0.098
1936/37 . .	606,960	458,371	1936	440,718,784‡	0.138	0.104

* Including grants-in-aid of the Imperial Institute and the Travel and Industrial Development Association.
† i.e. after allowing for various receipts (principally the British Industries Fair, which is self-supporting but included in gross figures. These figures include cost of C.D.O. and T.C. services).
‡ Provisional.

At the present time, gross expenditure on the maintenance of the services which the D.O.T. provides represents little more than one-tenth of 1 per cent of the value of British direct exports. This can hardly be described as an excessive charge, and even if the vote for the department were to be increased by 50 per cent, the additional cost to the nation through the Exchequer would still represent a very small fixed charge on the total export turnover. We attempt to show later in this chapter that it would be quite outweighed by the improvement in the services to the export trade which the department could provide.

Scope and Organisation of the United States Bureau of Foreign and Domestic Commerce

Other countries maintain similar organisations, and the services provided by the D.O.T. have often been compared unfavourably to those provided abroad—especially those provided by its opposite number in America—the Bureau of Foreign and Domestic Commerce of the American Department of Commerce. The American Bureau is organised in two main divisions, each of which is subdivided and is broadly specialised on the same geographical and industrial basis as the D.O.T. On the geographical side, the Bureau of Foreign and Domestic Commerce is subdivided into Technical Divisions and Field Divisions. The Technical Divisions comprise Commercial Laws, Commercial Intelligence, Finance, Foreign Tariffs, Foreign Trade Zones, Regional Information, Foreign Trade Statistics and Transportation. The Field Divisions comprise a Foreign Service Division maintaining representatives in foreign countries and a District Office Division maintaining representatives in a great number of industrial centres inside the United States. On the

industrial side, one branch deals with economic questions, of which the principal subdivisions are Economic Research, Marketing Research, and Negro Affairs. The other branch deals with eleven main industrial divisions, such as the Automobile and Aircraft Industry, Electrical Industries, Forest Products, etc. The director of the Bureau is also responsible for the reciprocal trade agreements section in which, inevitably, export policy and import policy have to be considered in conjunction with each other.

The funds on which the Bureau is run were severely curtailed during the financial crisis, but they have been increasing again since 1934. Even so, the Bureau's expenditure was only $2,887,000 in 1936 against $5,094,000 in 1932, while in this same period the gross expenditure of the Department of Overseas Trade has increased from £517,128 to £606,960. As a result, Great Britain is now spending slightly more than the United States on the promotion of overseas trade, whereas before the slump American expenditure on this item was nearly double the expenditure of the D.O.T.

Expenditure of the Bureau of Foreign and Domestic Commerce		Total Exports of U.S. Merchandise		Expenditure as % of Exports
Years ending June 30	$ 000	Calendar Years	$ 000	%
1929 . . .	4,264	1929	5,157,083	0.083
1930 . . .	4,751	1930	3,781,172	0.126
1931 . . .	4,977	1931	2,377,982	0.209
1932 . . .	5,094	1932	1,576,151	0.323
1933 . . .	3,745	1933	1,647,220	0.228
1934 . . .	2,071	1934	2,100,135	0.099
1935 . . .	2,458	1935	2,283,000	0.107
1936 . . .	2,887	1936	2,453,000	0.118

Up to the last three years, American expenditure on the promotion of export trade has tended to be larger in relation to export turnover than in this country, and will no doubt be increased again as soon as financial circumstances permit. Moreover, as a large proportion of the American export trade consists of trade in raw materials which are fairly readily marketable, the proportionate disparity in the resources applied to stimulating exports of manufactured goods is probably larger than the above figures would indicate at first sight.

Comparison of British and United States Expenditure on Trade Promotion

It may, however, be somewhat misleading to compare British and American efforts at trade promotion on the basis of the total expenditure of these two organisations, since it is difficult to say how far their functions are identical in character. Comparison of that part of their respective expenditure which is spent on the maintenance of the overseas commercial service reveals an interesting divergence of policy. The expenditure of the D.O.T. on salaries, office expenses and travelling of the C.D.O. and T.C. services has been remarkably stable, in spite of fluctuations in the total gross and net votes. Having been increased from £171,056 in 1929/30 to £220,319 in 1930/31, it has not since fallen

below £208,665 (1934/35), and stood at £218,649 for 1936/37. Expenditure on the United States foreign commerce service (excluding administrative expenses in Washington) was on about twice the scale of British expenditure in the period 1929-32, but was drastically cut—by about two-thirds—during the slump.

ANNUAL VOTE OF EXPENDITURE FOR THE D.O.T.

Years ending March 31	Total Vote		Salaries, Office Expense and Travel of C.D.O. and T.C. Services*	
	Gross	Net	Gross	% of British Export Trade
	£ 000	£ 000	£ 000	
1930 .	515	379	171	0.023
1931 .	628	503	220	0.039
1932 .	520	425	212	0.054
1933 .	517	376	225	0.062
1934 .	497	365	217	0.059
1935 .	563	422	209	0.053
1936 .	574	418	214	0.050
1937 .	607	458	218	0.049

ANNUAL EXPENDITURE OF THE U.S. BUREAU OF FOREIGN AND DOMESTIC COMMERCE

Years ending June 30	Total Expenditure	Expenditure on Foreign Commerce Service†	
	$ 000	$ 000	Percentage of U.S. Export Trade
1929 . .	4,264	1,862	0.036
1930 . .	4,751	1,883	0.050
1931 . .	4,977	2,199	0.093
1932 . .	5.094	2,234	0.142
1933 . .	3,745	1,766	0.107
1934 . .	2,071	1,572	0.075
1935 . .	2,458	675	0.030
1936 . .	2,887	811	0.033

* i.e. excluding Head Office expenditure.
† Excluding administrative expenses in Washington.

The United States has therefore spent considerably more than the United Kingdom in the past on trade promotion activities abroad, both absolutely and in proportion to export trade, but has been unable to keep this up in the last three years. British expenditure was less ambitious in the boom period and has been steadily maintained. There is no doubt that permanency and continuity is one of the most important factors in building up a successful service of commercial information overseas, and to this extent it is probable that

British policy has been more economical in the long run than the policy of the U.S. Government. In spite of this, the flow of business information from overseas countries maintained by the American service is in several respects more complete and effective than that provided by the D.O.T. In particular, the American service sets out to provide valuab e information on raw material and industrial development throughout the world which is of importance to a considerably wider circle of business interests than export trades alone.

Extension of D.O.T. Services

Possible extensions of the D.O.T. service can only be usefully considered after some definition of its functions—that is to say, the functions of Government commercial agents. These officers have the duty of approaching the Government of the country in which they are stationed on behalf of their own Government; of reporting on economic conditions; and of assisting in the thousand and one enquiries which private commercial organisations may put forward. They must therefore be prepared to handle different questions concerning any and every economic activity. With work of such a general nature, it is clear that they cannot have any profound technical knowledge, although, naturally, they must understand the main processes of the principal activities of the export trade of this country and of the industry of the country in which they are stationed. In the case of the political attitude of foreign Governments, they must give expert advice, but generally their function may be described not so much as advisory, but as introductory. They should be able to indicate the line of approach which their enquirer should follow.

The measure of assistance which a C.D.O. or T.C. can give therefore depends largely on the range of his contacts. An essential part of his work is to know everybody worth knowing in the trading, official and, in many countries, also the political world. In the larger posts, this is a counsel of an impossible perfection, but it is certainly the goal of every C.D.O. and T.C.

Now these contacts, although they need not entail any extravagance, cannot be made without expenditure on entertaining and so forth, nor can they be made if the officer is tied to his desk by routine work. We do not wish to criticise the present work of these services, but we feel that their work might be improved by an increase in salaries to cover increased representation and by an increase in the number of posts, and perhaps sometimes in the number of staff. The latter recommendation applies particularly to the Empire, where distances are great and travelling takes time, but is relevant to all posts.

It is, moreover, a pity that the exigencies of diplomatic routine demand the transfer of C.D.Os. at times from one post to another, since it may take years of work and experience of local conditions to build up the detailed knowledge and contacts which is necessary for the attainment of maximum efficiency. If any large expansion of staff is ruled out by considerations of expense, greater use might possibly be made of honorary consuls—usually citizens of the country or residents of long-standing—who can often be of great help to representatives of British firms owing to their intimate contact with local business.

The attempts of the Department of Overseas Trade to provide an information service are handicapped by the limitations imposed on any printed report from official sources, which can only with the greatest difficulty criticise foreign methods or conditions, although the printed services are supplemented by letters and interviews on particular enquiries which are exceedingly valuable. It might, however, be possible for the Department of Overseas Trade to supplement its service by the provision of a commercial library of foreign commercial and technical papers, works of reference, and even books discussing foreign trade and industrial developments abroad generally. To a small extent this service is in being already, and it could probably be supplemented from the resources of trade institutions which have libraries, and could provide a very useful place of reference. It should be observed that while the Patent Office library provides foreign technical papers, there is at present no governmental, and scarcely any extra-governmental, source of foreign commercial and industrial publications and reports.

A valuable service to exporters could also be performed by the institution and maintenance of a "competitors' museum," in which the more successful competitive lines and innovations of manufacturers in other countries, illustrations of designs that have proved popular, etc., could be permanently exhibited for the benefit of British industries. But such developments depend upon the provision of additional finance and accommodation. The visitor to the headquarters of most of the departments engaged in work connected with overseas trade can hardly fail to be struck by the inadequacy of the office accommodation, even for the existing duties which the staff performs. The same applies to the simpler mechanical aids to office efficiency such as files, indexes, and even bookshelves. A department which exists largely to supply information should be given adequate facilities for storing it efficiently and not, as at present, in loose and tattered volumes, frequently to be found by hunting on the floor. It is to be hoped that the completion of the new building in Whitehall will relieve the pressure on government accommodation sufficiently to permit the housing of these departments in better conditions.

The Governments of certain foreign countries, such as Italy and Germany, under the spur of decreasing foreign exchange resources and increasing economic nationalism, have devoted great attention to the development of new sources of supply. The U.S. Bureau of Foreign and Domestic Commerce provides some information on the available export products of other countries. In the United Kingdom government organisation there seems to be a gap in this respect. It is difficult to suggest means of filling this gap as long as official difficulties remain in recommending sources of supply which are competitive with the Empire sources. As regards Empire sources, the Imperial Institute does valuable work, but on a limited and inadequate scale.

This position has also the secondary effect of making it difficult for the Department of Overseas Trade to assist United Kingdom exporters in those cases, frequent of recent years, where the exporter can only secure the order by assisting the customer to market some of the produce of his own country.

The Board of Trade is, of course, responsible for Government policy regarding imports generally, including the imports of our raw materials. The only body to deal exclusively with imports is the Import Duties Advisory Committee which is mainly

concerned with hearing applications for tariff alterations on manufactured goods. But the question of research is a distinct problem, and in an age of rapid technical advance any gap in the provision of advice on this subject may prove very dangerous for the competitive power of British exports. There is a good case for an extension of the work now performed by the Imperial Institute and in an allied field by the Department of Scientific and Industrial Research.

The deficiency appears to be due in part, however, to the system on which the information is collected and presented. In comparison with the U.S. Bureau of Foreign and Domestic Commerce, the D.O.T. is apt to specialise overmuch on a geographical basis rather than an industrial basis. The manufacturer of a particular line of goods, from a business point of view, wants information about world developments in the market for products which affect him, and is not so much interested in sporadic piecemeal studies of national industrial conditions. The U.S. Bureau appears to have appreciated this, since much of the information which it puts out is grouped on an industrial basis.

From the description which has been given of the work of the Department of Overseas Trade it will be seen that it is of particular use to the small firm which is unable to afford an extensive overseas service. It should therefore be valuable to the newer industries which are just beginning to export; but it is just as useful to even the largest concerns. In fact, many of the largest organisations in the country do make great use of the D.O.T. In any case, any large extension of the Department of Overseas Trade vote is only justifiable if it is followed at a reasonable interval by an increase in the number of enquiries directed to the department. The D.O.T. is not a trading institution and does not charge for its services, but if it is to be an economic proposition it must have a volume of enquiries in relation to its overheads. We would therefore make a plea for a greater use of the Department of Overseas Trade and its overseas services. It is an instrument which the government has placed at the disposal of exporters, and, to some extent at least, its efficiency depends on the use which exporters make of it.

VII. THE FINANCE OF INTERNATIONAL TRADE

Summary

(i) The relationship of finance to international trade is essentially one of dependence. If opportunities for trading do not exist, financial measures alone will not create trade. But given economic and political conditions in which trade can be carried on, financial measures are useful as a lubricant.

(ii) Currency manipulation may secure a temporary advantage to the traders of a country practising it at the cost of compelling other countries to protect themselves by creating obstacles to trade. The misuse of international financial machinery has been a fertile source of hindrances to trade in recent years. The currency agreement of September 1936 was intended to help to remove such of these as arose from purely financial difficulties. In the event this hope has not materialized, and new constructive action is necessary.

(iii) From the standpoint of financial policy, the world is divided into three groups of countries—the creditor group, the industrialised debtor group, and the primary producing debtor group. The creditors (U.K., U.S.A., France, Holland, Sweden, Switzerland, Belgium) are suffering, as a group, from an *embarras de richesse*. The industrialised debtor group (principally Germany, Italy, Japan, Poland, Czecho-slovakia) has been forced to adopt exchange restrictions and various financial and commercial devices to maintain ostensibly the exchange value of its currencies and to support the existing volume of production and consumption upon inadequate financial resources. The difficulties of the "debtor industrial" countries have not been diminished by the rise in the world prices of raw commodities, which they have to import. The primary-producing debtors form a large group in which not all are old debtors, but some are large potential borrowers. In this group, the process of national development has been held up by inadequate internal capital resources and inability to borrow in the conditions of the past few years. The economic position of primary producers has, however, been improved by recent price trends.

(iv) From the economic point of view, the difficulties of the debtor industrial countries would be the keypoint of the present impasse. Their solution would contribute automatically to the abatement of the remaining difficulties of the primary producing debtors by encouraging a larger volume of trade in raw commodities. But the financial difficulties of the industrial debtor group are not due merely to financial factors or even to financial and economic factors combined. They are the result of financial and economic policies which have been forced to fit larger national aims embracing also social, political, and even "racial" objectives.

In default of a comprehensive agreement covering all these fields, it is impossible, and dangerous, to extend piecemeal assistance. This factor limits the opportunities of useful financial assistance in the near future. At any time, financial assistance should be given only as part of a wider scheme of economic co-operation.

(v) The first condition for the extension of wider financial co-operation must be the stabilisation of conditions within the creditor group. This having been achieved, the surplus financial resources of the creditor group could be made available to countries where they are more needed. Pre-war world economic development went hand in hand with the development of an international financial system in which London played a leading part. After the war, international lending was resumed and was pursued perhaps more energetically than the current degree of international economic co-operation really warranted. Since 1931, international financing has dwindled to small proportions, partly owing to serious natural obstacles, but partly owing to deliberate control for political or internal reasons. Yet the underlying economic demand for international lending has not sensibly diminished. And conditions within the creditor group, particularly in the United Kingdom and the United States, have reached the stage where the resumption of international economic and financial co-operation is becoming urgently necessary in the interests of internal stability.

(vi) Opportunities for new long-term lending are likely to occur in two distinct forms. In the first place, financial assistance will be required, mainly by the debtor industrial group, for reconstruction purposes. Reconstruction financing is an economic proposition only in a general sense, and is not directly self-liquidating. It provides only an indirect return in that it recreates conditions favourable to other activities which are likely to be prosperous. Since reconstruction loans can seldom, in practice, be adequately secured, the burden of undertaking them should not be allowed to fall entirely on the private investor. A guarantee by the government of the lending country would spread the risks more evenly over all the probable beneficiaries and should reduce the inherent risk of default by enabling the loan to be raised at a more moderate rate of interest.

(vii) In the second place, opportunities should recur of "development lending" of the old economic type, mainly to the primary-producing debtor group. Such loans should be linked as far as possible to exports of capital goods. In practice, this can seldom be ensured by legal means. But the competitive position of British export industries, despite subsidisation in certain foreign countries, has probably improved sufficiently to enable this connection to be established on purely economic grounds more frequently than occurred in the post-war decade. This process would be assisted by greater attention to the export of technical assistance in conjunction with development investment.

(viii) Foreign investment should be undertaken as far as possible on an equity basis which spreads the risks of major economic fluctuations more equitably as between

creditor and debtor. Events have proved that legal rights to fixed interest payments are not of much practical value in times of acute depression. And the existence of heavy fixed-interest burdens tend to cause interference with current trade and to prolong a depression. Certain types of development must, however, from their nature be financed by loans at fixed interest.

(ix) Equity investment is becoming a more appropriate medium in so far as economic changes are tending to reduce the natural sinking fund for certain types of development lending. Where this takes the form of lending which contributes directly or indirectly to developing the export industries of the borrower, or reducing his dependence on imports, the borrower's balance of payments tends to be improved to the extent where he can meet the service of a foreign loan without embarrassment. Ample opportunities for this type of lending are still outstanding, in so far as the rising standard of living in the creditor countries is leading to a more diversified demand, requiring a corresponding diversification in the export industries of overseas producers. This diversification will require new investment in equipment. But in so far as economic development abroad is tending, under the influence of economic nationalism, towards the creation of purely local activities, foreign lending may become more precarious, since such projects are not likely to produce an automatic return in foreign currencies. Hence development of this sort is more appropriately undertaken by internal capital and foreign investment for this purpose should be conducted with care.

(x) The reorganisation of their past indebtedness by the "old debtor" countries is proceeding faster than is sometimes supposed—though not always favourably to creditors—and this will remove one of the obstacles to new international investment.

(xi) A country should not, in the interests of stability, lend consistently more than the running surplus on its balance of current payments. To the extent that foreign investment can be linked to exports of capital goods, however, the fund available for further lending is not reduced. Conversely, it is desirable in the interests of international stability that a country should lend up to the full amount of its running surplus and should in subsequent years, by reducing exports or increasing imports, make the necessary adjustments in its own economy to enable it to receive interest payments without friction.

(xii) The United Kingdom's ability to lend abroad depends on the extent to which income from invisible exports and past foreign investment suffices to cover the adverse balance of visible trade. The excess of imported merchandise over exported merchandise is likely to be smallest in a period of slump or early recovery, when prices of raw materials tend to be low in relation to prices of manufactured goods. Hence it is important to ensure that invisible exports should flourish in times of boom, when the adverse balance of visible trade tends to be large, and to create conditions in which invisible exports can expand freely.

(xiii) The United Kingdom showed a heavy deficit on the balance of current payments in 1931. This was partly responsible for the depreciation of sterling, the effects of which were reinforced by a wide import tariff and the assumption of strict control by the Treasury over the volume of external capital transactions. This control was extended at one time to internal capital issues as well, but was subsequently relaxed in favour of issues on behalf of borrowers in Empire countries and of certain types of loans inside the sterling area. The control of the Treasury is informal, though it carries with it certain sanctions which are important in practice, and has led to friction. The position is unsatisfactory in that the policy of the Treasury in this respect is not sufficiently subject to public debate or Parliamentary control and there is reason to believe that the control has not always been used for the purposes for which it was originally set up. The position has not even been greatly improved by the appointment of a Foreign Transactions (Advisory) Committee. It is the more unsatisfactory since control can only extend to certain transactions, and others such as dealings by investors on foreign stock exchanges other than in large amounts, and the disposal by exporters of the proceeds of their sales abroad, may at times be responsible for the undesirable tendencies for which other activities are made to suffer.

(xiv) Government intervention in financial business has also extended to the important field of short-term credit and the increasingly important field of medium-term credit, through the agency of the Export Credits Guarantee Department. From dealing with credit risks (i.e. the risk of the insolvency of the importer) on current trade in a relatively small group of countries where business was particularly difficult, the operations of the Department have been extended to the guarantee of credits on exports to any country for a period of up to ten years and, subject to certain conditions, transfer risks as well as credit risks can now be covered. It is usually argued that the Export Credits Guarantee Department does not compete with private institutions since it is undertaking business which no private institution is willing or able to take in view of the risks involved. But by stipulating that traders wishing to cover *exchange risks* on any transaction must insure *credit risks* on all their overseas business, the Department takes care that it should get plenty of good risks as well as a few bad ones. While the Department has been deservedly successful in making possible, during the exceptional conditions of the depression, business which could not otherwise have been carried on, some anxiety must be expressed concerning the probable effect of the Department's activities, when conditions became easier on the average, upon the cost of trade financing. For the services of the Export Credits Guarantee Department would appear to be more expensive than the use of the old-fashioned trade bill. The fact that the Department is avowedly run on commercial lines and makes a profit, and does not merely set out to subsidise certain classes of exports constitutes one of the chief reasons why the principle involved in this experiment in state trading should be critically examined. It should be noted that the Department is in some senses in a privileged position owing to its facilities for prior access, as a branch of government, to the government intelligence service and is backed ultimately by the full financial resources of the State.

(xv) At any time, a large proportion of the trade not only of the United Kingdom, but also of the world at large was financed very cheaply through the machinery of the London bill. Notwithstanding that the procedure of drawing, accepting, and discounting of bills is complicated and a matter for experts, large numbers of traders did, before the War, conduct their foreign trade through the medium of the bill of exchange. Expert advice was always readily forthcoming from bankers who were interested in maintaining the supply of good trade bills which were a profitable investment for them. London acceptance houses had to possess very detailed knowledge of the credit standing of the importers and bankers whose bills they might be asked to endorse and hence became the intelligence system of the whole banking system and the agency through which the debt of one individual to another could be carried at the lowest possible cost by its transformation into a readily negotiable and self-liquidating security. As long as the banking system remained regionalised, bankers were interested in maintaining the circulation of a security which was, in case of need, readily negotiable in London. The economy in the holding of cash which resulted from bank amalgamations; the growth of the alternative short-term investment medium of the Treasury bill; and the larger return obtainable from financing traders on overdraft, reduced the incentive to maintain a large trade bill circulation after the War. With the fall in interest rates and the growth of surplus assets, bankers may now be regretting the decline of the trade bill. Exchange uncertainty has reduced the popularity of the sterling bill abroad, in spite of its cheapness, since foreigners are reluctant to undertake obligations in a currency which they may not be allowed to purchase. The depreciation of sterling in 1931 further affected the prestige of the sterling bill and the decline in importance in world trade of the commodity exchanges quoting London prices in terms of sterling has also been a factor. It is highly desirable that the use of the trade bill should be revived, since it is cheap to traders, it provides the clearing bankers with a useful type of investment, and increases the invisible exports of this country. Something can probably be done by an overhaul of the London acceptance machinery and an educational campaign for traders. Apart from this, the revival of the trade bill awaits the removal of the impediment of exchange uncertainty.

(xvi) Exchange instability is having the dual effect of keeping up the cost of trade financing and keeping down British income from invisible exports. The extent to which London's financial services are employed by foreigners depends upon the volume of world trade, the price at which London can offer its services and the extent to which foreigners regard sterling as a safer currency than their own or some other to transact business. The third factor arises not so much from any concern about sterling as from unwillingness on the part of foreigners to commit themselves to liabilities which they may be prevented from meeting. All currencies are regarded as unstable to-day in the last resort and though at certain times some of them may be regarded as less unstable than others, this does not alter the determination of the trader to conduct as much trade as possible in his own currency, even though the cost be high.

(xvii) As long as this instability and its effects persist a major recovery in British income from invisible exports is out of the question and the cost of conducting current trade must remain dear. The maintenance of a high degree of *de facto* stability for sterling does not appear to have been enough. The problem should be faced whether there is not more to be gained on balance at the present time from *de jure* stabilisation. It would seem probable that prolonged periods of "testing" for the purpose of ascertaining empirically the economic level of a currency may be largely worthless. Re-stabilisation would only be possible as a result of international co-operation and would take place, as a result of the world's intermediate experience of the technique of currency management, in very different circumstances from the post-war stabilisations. Conditions in the United Kingdom are, in particular, very different from those in which the 1925 stabilisation was undertaken.

The Functions of Finance in Relation to Trade

The present chapter is concerned with the extent to which financial measures can be used to assist and accelerate purely economic measures of trade development. But before embarking on a detailed discussion of the practical aspects of this problem, it is necessary first to make clear the scope and limitations of the use of financial measures as a constructive force.

The Oxford Dictionary defines the word "finance" as meaning the pecuniary resources of a kingdom, company or individual, and, as a verb, the provision of such resources. Thus, while failure to provide pecuniary resources in the form of capital may make trade infinitely more clumsy and difficult to carry on than it otherwise would be, it is nevertheless clear that it would be futile to provide financial resources for something which did not exist. Since, therefore, the relationship of finance to international trade is essentially one of dependence, it is impossible to expect that the provision of finance alone will recreate facilities for trading which have been destroyed by other agencies. Finance adapts itself to whatever the current conditions of trade may be. It can be used to oil the wheels of such trade as it may be currently possible, in the light of other factors, to carry on, in order that they may revolve faster and more freely. But its potential use as a lubricant depends at all times on the prior existence of the trading machine. If opportunities for trading do not exist, financial measures by themselves are of no avail in creating trade *ex vacuo*. Hence, while finance has a part to play in rebuilding a larger structure of international trade, it can only be of effective use in conjunction with other measures of a wider economic and political nature.

It is, of course, possible for a country, by manipulating the external value of its currency to secure temporary advantages for its traders of a kind which compel other countries to protect themselves by creating obstacles to the extension of trade. Currency depreciation is a two-edged weapon. Clearly, under present conditions the use—or misuse—of international financial machinery as an instrument of political policy by a large number of countries has been at least as fertile a source of hindrances to the exchange of goods and services as tariffs, quotas or other concrete impediments to trade.

The tripartite currency agreement between the United Kingdom, the United States and France, in September 1936, was intended, according to the announcements of the governments concerned, to help to remove a number of these trade barriers in so far as they arose purely from financial difficulties. In practice, the subsequent course of events has shown this view to have been too optimistic. The tripartite agreement has not proved sufficient by itself to achieve the desired result in any appreciable degree. Hence, it is necessary to devise new constructive action, and in this finance can play its part.

The Economic Position of the Creditor Countries

Regarded purely from the standpoint of their respective financial policies, three main groups of countries may be distinguished at the present time. The first of these comprises the creditor countries (the United Kingdom, the United States, France, Belgium, Sweden, Holland and Switzerland). All of these have now depreciated their currencies against gold and have established Exchange Funds for purposes of currency management. Two, at least—the United Kingdom and the United States—have been forced to use these funds increasingly for the purpose of keeping their currencies from appreciating unduly in the face of a heavy and prolonged influx of capital. This influx of capital has occurred largely for non-economic reasons. Much of it represents the movement of capital as between creditor countries: French funds moving to London owing to internal political troubles, and British funds moving to Wall Street in anticipation of rising security prices. It has now reached the stage where the flow of gold is becoming embarrassing to the recipients—hence the somewhat defamatory term of "hot money" by which it has been picturesquely described.

The United States administration has taken some steps to ensure, by "sterilising" part of the gold imported, that it shall not exercise an unwanted inflationary effect on the national economy, but the measures adopted can only be regarded as a palliative and do not tackle the real problem at all. The real problem is one of maldistribution of capital; it is not enough that money should be plentiful in the leading creditor countries while enterprise is starved elsewhere. To some extent, the influx of funds may still be due to difficulties in debtor countries, and it is important to remember that the removal of exchange restrictions in debtor countries might accelerate the influx unless accompanied promptly by other ameliorative measures in order to maintain confidence. As regards France, the time of major flights of capital has probably now passed, and Paris may be expected to function increasingly in its true capacity as a leading creditor centre. Taking the creditor group as a whole, the events of the first few months of 1937 have only served to emphasise the inherent dangers of a plethora of money and of the disruptive effects of large movements of funds under these conditions in response to changes in market psychology.

The Industrialised Debtors

The much larger debtor group of countries falls into two distinct divisions. One important though not very numerous band includes such countries as Germany, Italy and Japan, and may be characterised as the "debtor industrial" group, since, although debtors,

they are, in varying degrees, industrialised countries like the principal creditors, importing raw materials and exporting manufactured goosd. These countries have not, for the most part, been able to help themselves much by open manipulation of the external values of their currencies. They have, instead, been forced to adopt exchange control of a different and much more rigorous character than that employed by the creditor countries. These controls have been used, mainly and increasingly, either to keep the value of currencies up or to develop a system of selective currency depreciation, where the external value of the currency varies in effect according to the nature of the transaction, though the old parity is nominally retained. Some countries in this group have attempted to buy at one rate and sell at another, and by a control of their trading realtionships to extort forced loans from the countries with which they trade or to which they have outstanding financial obligations. Their whole policies have been conditioned by the necessity of supporting the desired volume of production and consumption upon inadequate financial resources. In this respect, their task is being made no easier by the rise in the general price level of commodities which, as industrial countries, they must buy to a large extent in world markets.

The Primary Producing Debtors

The third group consists of a large and scattered collection of countries, many of them already debtors on a large scale, and others large potential borrowers. Most of them are not industrialised in any degree, but are dependent mainly upon the production of agricultural and other primary commodities, some of them being highly dependent upon the market for one or two commodities alone. For the sake of convenience, this group of countries may be referred to as the "old debtor" countries, though some of them are not so much old debtors as large potential borrowers. These primary producing countries have largely looked for a solution of their immediate difficulties through the medium of economic or financial alliances with countries in the other two groups, but mainly with one or other of the creditor countries. Thus, countries in and outside the British Empire have based their financial policies on sterling and have concluded special trade agreements with the United Kingdom. Some, though not many, have allied themselves with the dollar; Canada must always to some extent link her fortunes with those of the U.S.A. Some, chiefly in Europe, have intimate financial and economic relationships with France. Others have been drawn, sometimes unwillingly and temporarily, into the orbit of Germany and Italy—members of the "industrial debtor" group. In general, however, natural economic forces, in the shape of rising commodity prices, have begun to reduce their difficulties and to restore the balance of payments of the primary producing countries to a position more in keeping with the existing structure of debts.

To sum up, the three groups have very different financial prospects. The creditor countries have ample funds and, for the most part, favourable prospects which are only threatened by the limitations imposed upon recovery by undue dependence on the home market and by the inflationary dangers created by the existence of surplus funds. The countries in the third group, primary producing debtors, have their problems in the shape of insufficiency of capital and a burden of debt contracted at high rates of interest and

unadjusted to the fall in productivity of the capital assets, but economic forces, in the shape of rising commodity prices, are tending to make their difficulties less formidable. In contrast, the industrial debtors are faced with increasing difficulties. The shortage of capital and the problem of past indebtedness are as serious as ever; commodity prices have risen against them and accentuated the shortage of foreign exchange; and in some cases, their foreign commitments of a non-economic nature are increasing.

The Problem of Economic Reconstruction

Regarded purely from an economic point of view, the difficulties of the debtor industrial countries are the keypoint of the present impasse. If they could be solved, their solution would automatically contribute much to the abatement of the remaining difficulties of the "old debtor" countries, which have consisted mainly of a restriction of export outlets coupled with the burden of past debts. Economically, the first step towards a solution of the world's difficulties would consist of measures calculated to set up the currencies of the debtor industrial countries in a position where they could be freed of control. In so far as this would be a problem of finance, the creditor countries would be able to help. But the problem is not merely one of finance and could not be solved by the extension of financial assistance alone. The problems of many of the debtor industrial countries are not even due only to difficulties arising from financial and economic causes. They are the result of financial and economic policies which have been forced to fit larger national aims embracing also social, political and even "racial" objectives. In default of a comprehensive agreement covering the whole field of possible co-operation—economic, financial and political—it is obviously impossible and indeed highly dangerous, for the creditor countries to extend assistance piecemeal which might only be used to strengthen isolationist tendencies based on grounds which must appear in the long run economically unsound. Hence, co-operation must be complete, or it cannot be envisaged at all as a practical policy. Further than this, financial assistance cannot at any time or in any particular case, be extended with any hope of success except as part of a wider scheme of economic co-operation. The experience of attempts at reconstruction in the decade ending in 1930 should have taught us this, if it taught us nothing else. Financial assistance for purposes of reconstruction can only be of use if it is accompanied by measures of economic assistance which will consolidate the beneficial effects of financial aid.

These factors impose serious limitations upon the geographical scope of possible financial measures of assistance in the immediate future, but they do not prevent the preparation of the ground or the consideration of the directions in which financial policy can be usefully employed.

The Redistribution of Financial Resources

The first condition for the successful widening of the scope of international financial co-operation must be to recreate conditions in which the abnormal and embarrassing flow of funds to the major creditor countries and the upward pressure upon their currencies is stopped and, if possible, reversed. The achievement of this object implies in the first place greater political and financial stability within the creditor group itself. This may

already be emerging slowly from natural causes, but could be much accelerated by constructive co-operation. In the second place it is necessary to remove as far as possible the fear, largely political in origin, which has played a large part in causing the flight of funds from other currencies to the creditor group.

Assuming, for the moment, that steps can be taken towards the establishment of this first condition, it would become increasingly possible to use the financial strength of the creditor group, in conjunction with the purely economic measures which are discussed in earlier chapters, to secure an improvement in the general economic position of such of the hard-pressed countries as are willing to co-operate at all points. In this process two main types of financial assistance would be required. In the first place, economic reconstruction and economic development would require long-term capital; in the second place, a larger volume of international trade would require increased short-term financing. London must obviously play a leading part in both spheres, as in the past.

The Position of London in Post-War Finance

The development of the pre-war international economic system went hand-in-hand with the development of an international financial system. The Old World exported not only men and women and goods and services, but also money. It provided long-term capital for the opening up of new areas, for the building of railways, harbours, mines, and for the establishment of local industries. In addition, it made available short-term finance for the whole series of business transactions between the producer of raw materials at one end of the chain and the final consumer at the other. London was a world financial centre far more truly than it was a national financial centre. The most highly developed part of the London financial system was to be seen in the acceptance and issuing houses, with their valuab'e special knowledge and contacts which enabled them to act as a channel for British savings. They provided investment opportunities both for long-term capital, through the new issue market, and for short-term capital through the bills which they accepted and placed on the bill market. Their world connections—for most of them had originated as merchant houses, and the term "merchant banker" still survives—enabled them to open up opportunities which would have been out of reach of any more localised financial institution. Trade and finance went hand in hand.

With the War came a complete break in continuity, and after the War the economic situation was altered out of recognition. The char cteristic features were less economic and more political, the growth of new creditor countries led to competition among lenders, and investment opportunities tended to become investment necessities—necessities from the point of view of the borrower rather than of the lender. The machinery of London adapted itself to the new conditions; London played a leading part in organising reconstruction lending under the auspices of the League of Nations, and in establishing new institutions to maintain contact with Central Europe, the Near East, and elsewhere. At this time finance was not only accompanying commercial development but was even trying to lead the way in the attempt to restore order out of chaos and to build up an integrated world economic system once again. There can be no accusation against the City in its outlook; on the contrary, events have proved that perhaps it tried to do too

much. Slower progress would have been more in keeping with underlying realities and would have prevented some at least of the maladjustments which were revealed in the depression years. In this connection, the efforts of London to act only on a sound economic basis during this period was not necessarily a guarantee of success in so far as the whole world financial machinery suffered from the mistakes made by financial centres of less experience.

Since 1931 international financing has dwindled to small proportions. The decline is the consequence of substantial losses in different parts of the world, which have made for increased caution, and of increased risks and uncertainties due to trading restrictions and political obstacles. In part also, it is the result of deliberate policy. New overseas issues are subject to a rigid control. Other forms of foreign lending, though not restricted, are, in many cases, frowned upon. The pendulum has swung to the other extreme; instead of seeking to develop London's international business, official policy has aimed at keeping British capital at home in order to reduce pressure on the exchange and to promote ease in the domestic capital market for the benefit of Treasury and industrial financing.

New Opportunities for International Investment

Yet, the underlying demand in the world for capital for all purposes has not sensibly diminished even though it may have altered somewhat in character. Any attempt to create a larger volume of international trade would have to be accompanied by efforts to secure a more even distribution in the employment of financial resources. There is, in other words, an urgent demand for a resumption of international lending in various forms. It remains to be seen what are the forms these demands are taking and what are the best means of satisfying them, to the mutual benefit of borrower and lender, profiting from the experience of past mistakes.

Opportunities for useful long-term lending are likely to occur in two distinct forms.

Reconstruction Lending

There will, in the first place, undoubtedly be a demand for reconstruction finance, while opportunities will also doubtless occur for finance for the purpose of the development and expansion of trade. It is important to realise that these two types of finance are quite distinct in nature and purpose. Reconstruction financing is an economic proposition only in a general sense and should be conducted only with full understanding of its nature. Loans for the purpose of stabilising the currencies or balancing the budgets of foreign countries bring no direct economic return, but their indirect return in recreating conditions of stability and confidence in which trade can develop may be considerable. Even though they can be secured in theory upon a particular asset, such as the revenue of a State undertaking, they can seldom be regarded as self-liquidating in the strict sense. The hypothecated asset in most cases is not likely to provide a return in foreign currency from which the service on the loan can be met. Nor, in the extreme case of a default, is it in practice possible to enforce the security on which the loan is in theory based. Such

loans can only, as in the case of the League reconstruction loans in the post-war decade, be reliably expected to bring in a return in a general and indirect form—by the consolidation of the assets of the debtor and the general amelioration of trading relations—and in the latter connection only if the loan is made in conjunction with other economic concessions of a wider nature. From the national standpoint of the lending country, regarded as a whole, it may be profitable on balance to make such loans even if prospects of their repayment and of continued service are doubtful. But if this is so, it is inappropriate that the full burden of such loans to the lending country should fall, as did most of the League Loans, on the private investor. If the benefit to the lending country is likely to be general, the burden of a possible default should be generally shared and this can most readily be achieved if reconstruction loans are only made under the guarantee of the government of the lending country and if the burden of possible default is therefore spread over the whole body of taxpayers. It may be added that a government guarantee of this nature, by reducing the risk element for the private investor, enables such loans to be raised much more cheaply than would otherwise be the case, and this automatically diminishes the intrinsic possibilities of default.

Development Lending

Since the "old debtor" countries are already in a large degree linked to one or other of the creditor countries, there is no serious obstacle except the existence of unadjusted debts contracted in the past to the revival of loans for the purpose of capital development of backward areas on traditional lines. As the expansion and differentiation of international trade proceeds, opportunities for lending of this sort may be expected to increase. Such loans are essentially of a directly economic nature and, in so far as they are concerned with capital development, they can, in the right circumstances, lead to an expansion in the export of capital goods from the lending country. And since they usually contribute directly to the development of the fixed assets of the borrowing country, they can be regarded broadly speaking as directly self-liquidating, in the sense which does not apply to reconstruction lending. These characteristics only apply, however, within certain limitations. It is seldom possible to compel the borrower of a long-term loan to spend it on the purchase of goods in the country where the loan is raised. This may be provided for by informal agreement, but the borrower is only likely to raise the funds under these conditions or to respect such an agreement provided that the goods which he is expected to buy are competitive in price and quality with similar goods from other sources. In the post-war decade, this condition was not in general fulfilled in so far as Great Britain was concerned, but there is reason to believe, in view of the adjustments which have taken place since 1931, that British industries are economically more satisfactorily placed to-day, except in so far as they are subject to subsidised competition from other European manufacturers.

The subsidies that are given by the German Government, for instance, though Germany does not stand alone in subsidising the export of capital goods, are, if need be, large. They are also of a sufficient flexibility to ensure that any particular contract may be captured on price, if it is desired to do so. German undercutting by subsidy has in fact been pursued at times with what appears to be an excess of zeal, foreign quota-

tions having on occasions been underbid by something like 25 per cent. There are, however, some grounds for believing that this is not necessarily a permanent feature. In so far as the policy of economic isolation and self-sufficiency can be pursued to a successful conclusion and imports reduced, the need for forcing exports by means of subsidies for the purpose of acquiring foreign exchange may be expected to diminish. At the same time, the forcing of capital goods exports under clearing agreements is already beginning to prove self-destructive, as has been shown in an earlier chapter.

Although, therefore, the sale of British capital goods in conjunction with the extension of development lending may meet with difficulties, the marriage of the two transactions can probably be more readily achieved in the economic conditions of to-day than was the case in the post-war decade. And when loans can be linked to capital goods exports in this way the problem of transfer of the loan from the lending to borrowing country in the first instance is much reduced. Loans linked to capital goods exports in this way do not reduce the surplus on the balance of payments available for other commercial and financial purposes because the increase in exports itself produces the sterling which is lent to the borrowing country.

The process of linking foreign lending with British capital goods exports would be further assisted if, as is suggested in an earlier chapter, the export of technical assistance is consciously encouraged in conjunction with the extension of development loans. Technical experts sent out from this country, or foreign nationals having received a technical training here are capable, besides watching the best interests of British creditors, of stimulating and maintaining the goodwill of foreign purchasers for British capital goods, British financial institutions and technical services. It might, indeed, pay financial institutions in the City of London to encourage the building up of this goodwill by themselves organising and collecting young men of suitable technical training for this purpose, and giving them the security of employment and of adequate remuneration, the absence of which, in many posts in foreign countries at present deters many of the best trained men from seeking employment outside the British Isles. At the same time, care must be taken that such technical assistance is offered in a manner which does not offend the national susceptibilities of the borrower, and in all cases where the borrower is placed under an obligation, whether informal or otherwise, to buy British plant, it is imperative to ensure that the standards of the goods he is buying should at all times be maintained as regards quality and moderation in price.

The Extension of Equity Investment

Difficulties of transfer of loans in the first instance from the lending to the borrowing country are inconsiderable in relation to the potential difficulties of transfer of continuous service on the loan by the borrower. Defaults on foreign loans have recurred repeatedly in the past and will probably occur again in the future. But something can be done to make defaults less probable and less onerous to borrower and lender when they do occur. It would be too optimistic to expect that fluctuations in the prosperity of debtor countries will not continue to occur even if they become less sharp with the increasing diversification of the debtors' economies. In these circumstances, defaults or serious interference with

current trade can only be prevented from time to time if the misfortunes of the debtors such as are caused to primary producers by a sharp fall in commodity prices are borne also in some degree by the creditors. As long as Great Britain retained a virtual monopoly of foreign lending, this result was roughly achieved by the policy which London financial institutions customarily pursued—to withhold further funds from the defaulting country until such a time as the automatic adjustment of the balance of supply and demand of the commodities, on which the defaulting country depended, facilitated a return to prosperity and a resumption of payments. Since foreign lending has become internationalised, it is impossible to rely upon any such unity of policy among creditors, with the result that, for example, New York may continue to support South American debtors at a time when London decides that South America has over-borrowed in relation to her existing economic and financial position. In these circumstances good loans may in the end suffer along with bad. For the future, the risks of a freezing of the financial structure of debtor countries in times of low commodity prices with widespread destructive effects on world trading and financial relationships would be reduced if as high a proportion of of international investment as possible is conducted on an equity basis. In this way, foreign borrowers not being obliged to transfer fixed interest payments, will be able to meet a depression by the reduction of dividends. Such a procedure ensures that the effects of depression are equally shared by borrower and lender and that the recovery of the borrower is not impeded by the existence of a burden which he is temporarily quite unable to bear.

It may be objected that such an arrangement would not be any more attractive to the investor. The experience of investors in the last few years should, however, have taught them how much the guarantee of a fixed interest payment is worth on an international loan. Where, in fact, the income received from foreign bond holdings is liable to fluctuate no less drastically than the return on an equity holding, the additional legal security which the bondholder enjoys may not be worth very much. From a wider standpoint, foreign investment by means of equities rather than loans might be commended as likely to involve a much keener scrutiny of the economic prospects of the project to be financed in the first instance, both by the issuing house and by the private investor. The evils of "bond salesmanship" cannot arise if there are no bonds to sell and no attractive and seemingly secure fixed payment with which to tempt the less experienced investor.

It may also be objected that equity investment makes no provision for a sinking fund and, in effect, amounts to lending in perpetuity. It is true that this is a disadvantage in some respects, but is not so disadvantageous as might appear at first sight. In the first place, the wide distribution of wealth to-day enables risks to be spread. In the second place, the multiplication of Stock Exchange facilities enables an investor to make his own sinking fund arrangements. In the third place the probable life of an equity interest is generally allowed for in fixing its market valuation. And already in the case of many existing issues, the repurchase of the obligations of their country by foreign nationals constitutes a more effective sinking fund than that provided for in the legal terms of the loan contract.

World Consumption Trends and the Effects on International Investment

Borrowing by means of equities is not of course appropriate to all forms of lending, such as, for example, borrowing by foreign municipalities for the construction of public

utilities. The theoretical possibility has been advanced from time to time of permitting variations in fixed interest payments on such loans in accordance with the movement of some index of prices or prosperity. The practical difficulties involved are so great that it is doubtful whether such a scheme could ever be applied with success. A scheme of this sort was in fact attached to the payment of reparation annuities by Germany under the Dawes Plan, but, unfortunately, just at the time when it might have been usefully tested, it was excluded from the provisions of the Young Plan. This being the case, it is essential that whatever foreign lending has to be conducted at fixed interest, owing to technical conditions, should be conducted with caution. This is the more necessary in that fundamental economic changes may be making it gradually more difficult to maintain large volumes of transfers of loan services from debtors to creditors than was the case before the War.

As long as the populations of the creditor countries were increasing rapidly and their standard of living remained relatively low, the potential demand for the production in bulk of foodstuffs and primary commodities by overseas countries, such as could be encouraged by intelligent investment in their capital development, was considerable. The satisfaction of this demand created, as it were, an automatic sinking fund for the capital which was invested in order to allow the demand to be satisfied. Although the potential increase in the consumption of bulk foodstuffs may still be considerable, it is clearly not as large as formerly. In the first place, increases in the standard of living at this stage are likely to require a shift in the balance of production of various types of goods, both at home and overseas. There may well be a smaller relative increase in the demand for wheat and meat products and a larger relative increase in the demand for more diversified foodstuffs. The whole of the demand for these new products cannot be satisfied from domestic resources, although, in so far as it is fresh foods that are needed, British agriculture must be relied upon to change over and produce them. But for commodities such as fruit, butter and cheese, the rising standard of life in Europe will almost certainly necessitate an increased volume of imports from overseas. If the industrialised nations are going to consume a much larger quantity of commodities such as fruit, butter and cheese, and relatively less wheat and meat, primary producers overseas will need more elaborate capital equipment for transport, packing, local processing and the like, thus providing, during the development period, for complementary trade between the United Kingdom and the Dominions and other overseas countries. Thus, while the future course of economic development may require major capital investment such as in building railways and ports on a less extensive scale than in the past, the diversification and expansion of overseas primary production will undoubtedly require further capital outlay on a considerable scale. In so far as the populations of the creditor and industrialised nations are tending towards stability and even towards decline, however, the total volume of their consumption may not continue to increase as rapidly as it has done in the past, unless the rise in the standard of living is much accelerated.

At the same time, it must be recognised that the development of primary producing countries in the future is likely to be concerned, to some extent, with the building up of secondary industries producing predominantly for internal consumption. The development of such industries is carried out more appropriately by internal capital than by imported capital unless certain conditions are complied with. For the development of

secondary industries generally speaking contributes less towards improving the exporting capacity of the borrowing country than many earlier types of development which were more concerned with opening up the export trade in primary products. Unless the creditor country is prepared to take some of the output or unless development of an internal industry helps towards cutting down imports of goods and so improving the balance of payments of the borrowing country, investment in secondary industries abroad does not create a natural sinking fund for itself as easily as some of the traditional types of foreign investment. The export of capital for the development of secondary industries abroad must, therefore, be conducted with caution and is, at any time, best conducted on an equity basis.

The Reorganisation of Past Indebtedness

As has been mentioned earlier, an essential prelude to the resumption of foreign investment, whether for reconstruction or development purposes, is the reorganisation of past indebtedness.

Some progress has already been made in this direction, though it has often been by unilateral action of the debtor which the creditors have subsequently been compelled to accept *faute de mieux*. The Council of Foreign Bondholders and parallel organisations abroad have, however, by their activities on behalf of creditors, been able to restrain the baser instincts of debtors in some instances. Altogether, the progress which has been made in the adjustment of past indebtedness has not been unsatisfactory, although it has meant in many cases that the rights of the creditors have been very drastically scaled down. It is impossible to give a full account of the defaults which have occurred since 1930 and the efforts which have subsequently been made to patch them up, but the following cases may serve as examples.

Chile, which had otherwise maintained an exemplary record in respect of foreign obligations, declared a complete moratorium on external debt in 1931, which was hardly avoidable in view of the decline of export proceeds—particularly those of the nitrate industry. Following a reorganisation of the export system for nitrates and copper, the Chilean Government introduced a new law whereby, from the beginning of 1935, the Government's income from the exports of these commodities was to be applied exclusively to the service of the external debt. In point of fact, only 50 per cent of these proceeds are applied to payment of interest, with the result that bondholders have not received more than a fractional payment on their holdings. In 1935 the proceeds of the assigned revenues amounted to $4,128,251, and when half of this was applied to the payment of interest it was only sufficient to provide £4 15s. for every £1,000 of sterling bonds. The remaining 50 per cent is applied to the redemption of external bonds by purchases (at depreciated prices) in the open market. This particular arrangement has been criticised, perhaps correctly, as discriminating unduly in favour of the debtor, but the principle introduced—whereby Chile's foreign creditors are placed virtually in the position of equity holders, being dependent on the prosperity of two of Chile's principal industries—is salutary.

A more satisfactory example of the methods by which debt burdens must be adjusted

to a changed economic background has been provided by the Province of Buenos Aires. Financial stringency compelled the introduction of a funding scheme in 1932 for three years, and sinking funds were suspended except on the 6½ per cent Internal Consolidated Loan. By August 1935, improved conditions enabled the Provincial Government to make a new offer to bondholders. The Government had in the meantime adhered to the Argentine Unification Law by which certain revenues (previously assigned to loan services) will henceforth be collected solely by the Federal Government and redistributed in a fixed ratio to the Provincial Governments instead of being collected in part by each. The Buenos Aires Government consequently offered to make available improved security and to make service on its obligations independent of fluctuations in the rate of exchange. In return, it asked that bondholders should accept a reduction of interest, except on the 3-3½ per cent loan of 1906-09, as follows, with amortisation beginning in 1942:

	1936/38	After 1938
	%	%
5% Consolidated	4½	4½
5% 1908	3¾	4
4½% External 1909/12	3½	3¾
5% External Gold	3¾	4

China has also within the past two years made praiseworthy efforts to tidy up her external debt position. Payments have been resumed on two of the defaulted railway loans and certain other arrears made up.

The debtors of Eastern Europe have been less conciliatory, even when account is taken of their exceptional difficulties. Roumania's record has been particularly unsatisfactory, and a number of new agreements have been made only to be broken shortly afterwards. Greece has also consistently refused to transfer moderate amounts which representatives of the creditors and of the League of Nations have considered to be well within the country's abilities, and Bulgaria's record has also been unsatisfactory. Although history shows that the memories of bondholders are often short, the records of these countries during the last seven years will make a settlement more difficult. Nevertheless, they will probably be the first to realise that the settlement of their past debts is an indispensable condition to contracting new ones, and if funds become more readily available for international investment, they are likely to take a more optimistic view than hitherto of their own abilities.

Foreign Investment and the Balance of Payments

It has already been shown that in so far as capital exports can be correlated with exports of capital goods, the strain imposed upon the balance of payments in transferring funds from lender to borrower is minimised. It follows, therefore, that the flow of foreign investment need not be strictly conditioned by the position of the national balance of payments at any moment. Nevertheless, the ability of a country to lend abroad will, in general, depend upon the existence, in the medium period, of a surplus of income over current outgoings. It is highly undesirable that any country should consistently lend

abroad more than the annual surplus on its balance of current payments—or rather the running surplus from year to year, since it is seldom possible to measure in advance exactly what the position of the balance of payments may be. Any country doing so will be placed in the awkward position of "borrowing short and lending long" of which the United Kingdom was guilty in the period 1926-1931. A country's balance of payments reflects the results of its commercial and financial dealings with the outside world. Income is received from the proceeds of export trade in merchandise, shipping and insurance services sold to foreigners, interest on past investment, the entertainment of foreign tourists, etc. Most of it is spent on purchasing imports or in meeting other commitments of British nationals in foreign countries. The surplus of income over these payments can either be lent abroad as short term balances or it may be invested abroad at long-term. Otherwise it can only be liquidated by movements of gold into the United Kingdom. Before the war, the British balance of payments customarily showed a very large surplus, which was practically all lent abroad. Since the war, and particularly since 1931, the available surplus has been smaller as is shown by the Board of Trade's estimates which are reproduced in Chapter I*. It may be added, in parenthesis, that while a country should not, in its own interest, lend more than the running surplus on its balance of current payments, it is also desirable, in the interests of world equilibrium, that it should lend abroad to the full amount of its surplus if opportunities for sound lending can be found. But at the same time, it should be remembered that to lend abroad the surplus on the balance of payments for one year will only tend to create a larger surplus in the following year by the amount of the service on the new investment, unless, at the same time, measures are taken, such as by increasing imports or reducing exports, to ensure that the balance of payments is adjusted elsewhere. The history of American lending since the War should provide a sufficient warning to those who believe that a country can continue to lend large surpluses abroad with profit to itself and others without making major adjustments in its own economy.

Except for the fluctuations caused by cyclical movements in prices, the adverse balance of merchandise trade in the British balance of payments is not likely to vary very much from year to year, in the medium period. The adverse balance on merchandise account will, however, tend to be smaller in slump and in the early stages of recovery than in times of boom. For in slump the prices of primary commodities (which mainly affect the value of imports) tend to fall more drastically than the prices of manufactured articles (which mainly affect the value of exports). It is true that the period 1929-1936 has not, as a whole, shown a movement of this kind in the balance of visible trade. But the continuity was broken by two major changes—the depreciation of sterling, which affected the terms of trade, and the introduction of tariffs on British imports on an extensive scale. Whether or not a sufficient surplus is issued on current transactions as a whole to permit foreign investment on any appreciable scale, depends largely upon the size of the income from invisible exports and past investments. If it more than suffices to cover the adverse balance of visible trade plus tourist expenditure abroad and other smaller commitments, something will be available to lend abroad. Apart from interest receipts from past investments, British invisible exports are made up of income received from a

* See page 41.

variety of services such as shipping, insurance, and a number of facilities provided by the London money market, including the financing of other people's trade, of which we are net sellers to the rest of the world. It is important at any time in the national interest that the prosperity of the "invisible export trade" should be maintained. Efforts in this direction are particularly necessary in times of boom when additional income is needed from abroad to offset the rising tendency in the adverse balance of visible trade.

The Treasury Control of Foreign Transactions

As is shown by the Board of Trade's estimates, the overseas transactions of the United Kingdom resulted in a big balance on the wrong side in 1931. The depreciation of sterling was to some extent the consequence of this and the cure for it. At the same time tariffs were introduced as a reinforcement, and the Government virtually assumed control of the volume of foreign investment. The control imposed in 1931 assumed the form of a departmental "request" from the Treasury to the market, unsupported by any legislative sanction. In the first instance, the issue of foreign loans was virtually banned by this means and later, in June 1932, the Chancellor asked for the co-operation of issuing houses in suspending domestic issues in order to assist the War Loan Conversion. The restriction on domestic issues was lifted by stages and later on, Empire borrowers were readmitted to the London market on certain conditions. In June 1934, the ban was further modified in favour of certain loans to foreign countries in the sterling area. Loans for the purpose of stabilising their currencies on sterling and issues which were likely to be of direct benefit to British exports were then able to secure admittance to the London market. Early in 1936, the position was regularised by the appointment of a Foreign Transactions (Advisory) Committee. This committee is presided over by Lord Kennet, a former Financial Secretary to the Treasury and Minister of Health, and includes representatives of the Bank of England, the merchant banks, the joint-stock banks, the discount market, the Stock Exchange, insurance and industry. Its duties are to advise the Chancellor of the Exchequer generally upon the scope of restrictions and upon particular applications.

It is important to remember that this financial dictatorship of the Treasury over the operations of the City of London has no legal basis and depends upon the goodwill of financial institutions in respecting the observations, informal requests and expressions of opinion which the Treasury may see fit to make. Though in so far as the policy of the Bank of England is likely to conform to the Treasury's views, and in so far as the Committee of the Stock Exchange is also amenable, powerful pressure could be put indirectly upon any individual or institution who presumed to neglect the Treasury's advice. The control covers not only issues in London on behalf of foreign borrowers but all capital transactions involving a large movement of funds, including the purchase of large blocks of securities from foreign owners in one deal. It was imposed in the first instance in order to strengthen the protection of sterling and in this sense may be regarded as an adjunct of the Exchange Equalisation Fund. The public may be forgiven for reaching the conclusion, however, that in the course of time the control has been used at various times for just whatever purpose has suited the immediate policy of the Treasury. There have been signs, especially of late, of growing resentment in business circles.

The "Red Star" Case

A particularly informative instance of the not infrequent cases of friction arising from the Treasury's decisions occurred towards the end of 1934 when a British syndicate applied for permission to purchase certain ships of the American Red Star Line, then in the process of being sold up. The promoters' intentions were to organise a new transatlantic passenger service for tourists at rates which would undercut existing services by one-half to one-third. The Treasury was approached in an informal manner for approval and "in an equally informal manner" indicated that in the national interest the proposal should not be carried through. The reason for the Treasury's disapproval, as stated by the Chancellor of the Exchequer, was that the proposal would "facilitate the setting up of a new competition which could only have the effect of injuring" the Cunard-White Star merger which had recently been promoted by the Government with the assistance of a subsidy of £4½ millions. The syndicate received a further rebuff from the Treasury when it offered to go so far as to consult with the Government before building any new tonnage. The Government was unable to regard favourably a proposal which laid upon it "a recurring responsibility of an embarrassing character in respect of a concern in which it had no financial stake." At this, the promoters, possibly recalling that the Treasury's expression of disapproval had only been informal, seem to have contemplated continuing with their scheme. In fact, when asked in the House of Commons whether it could be assumed that the Chancellor would take no further effective measures to oppose the promoters if they chose to ignore his advice, the Financial Secretary to the Treasury replied in the first instance in the affirmative, but a day later reversed his decision. The episode was instructive as indicating, in the first place, the extent to which considerations extraneous to the protection of sterling appear to influence Treasury policy, and, in the second place, the weight which must be attached to informal expressions of departmental opinion. It may be mentioned that the final outcome of the Red Star case was that the ships in question were bought by Germany and immediately put into service, while the British syndicate is carrying out its plans by building new ships in the United Kingdom. The British Government, therefore, far from averting possible competition from Cunard-White Star has only succeeded in intensifying it.

Capital Control Policy

Altogether, the position must be regarded as serious, inasmuch as major decisions of policy can be made and enforced by moral pressure without opportunities of public debate or control through Parliament. In these circumstances, it is not surprising that the opinion is on occasions expressed that the control is used less for reasons of wide national policy than to suit the current requirements of Treasury financing. The formation of the Advisory Committee may have done something to make the system less productive of friction in practice. The terms of reference of the Committee have been publicly laid down and later elaborated by the Committee itself in a circular to all interested parties. The primary consideration to be observed is the protection of sterling, of which the intrinsic strength must be judged without reference to the temporary influx of short-term funds. The Committee is not, in general, concerned with private overseas investment as long as it is not made for the purpose of redistribution or likely to lead to

public dealings. Regard will be paid, in treating applications, to exchange considerations and the movement of international securities as between London and other markets. Empire borrowers will receive favourable consideration (they have long received special advantages under the Colonial Stocks Acts) as will loans which will finance additional British exports or assist British-owned enterprises overseas. Moreover the Committee was instructed in examining applications to take account of the treatment accorded to British-owned enterprises by the foreign country concerned. Finally, the position has been further re-defined in a recent Treasury statement which requires that the following four types of financial proposals should be submitted to the Committee for approval:—(i) financing on behalf of foreign authorities; (ii) capital offers to the public involving remittances directly or indirectly outside the British Empire; (iii) similar offers not made to the public but being the subject of applications to the Stock Exchange Committee for "permission to deal"; (iv) the acquisition from foreign holders of large blocks of securities (including securities dealt in on the London Stock Exchange) for the purpose of resale in the United Kingdom. It will be noted that investment trusts, and perhaps even some ordinary businesses operating mainly in the United Kingdom, may be affected by the second requirement when wishing to raise new capital.

While the position now appears to have been regularised, the strictness of the control seems, if anything, to have been increased. The refusal of facilities to the French Government in the matter of the large Defence Loan issued in the spring of 1937 appears to have been particularly shortsighted when the wider circumstances surrounding this issue are recalled, though with defence borrowing operations of its own in the offing, a certain cautiousness on the part of the Treasury was only consistent with its past policy regarding foreign issues.

The system of control as at present operated and in the permanent form which it now seems to have assumed is the more regrettable in that it is imperfect. Discrimination is an essential feature of any system of control of capital exports. But the British system is only able to discriminate successfully over part of the total volume of capital exported. Although informal, the control is undoubtedly effective, for a variety of reasons, over the field which embraces new issues and offers of capital or purchases of blocks of shares of such dimensions that special banking facilities are likely to be needed. Two of the most important factors in the international movement of capital to-day, however, are the purchases and sales of existing securities on foreign Stock Exchanges by investors, and the disposal by traders of the proceeds of their exports of goods and services. Short of a complete system of control of transactions by the allocation of permits for all dealings with foreign countries, as, for example, is done in Germany, international capital movements cannot effectively be controlled in the long run. In certain circumstances, movements of funds of an uncontrollable nature may rightly be regarded as undesirable. Under the present system the authorities can, however, do little to check such movements and, if they decide that some check must be applied, can act only in respect of such part of the market as they effectively control. In these circumstances it is not inconceivable that undesirable movements will be allowed to flourish while desirable movements are suppressed.

The entire question, both of the methods on which the control is based and of the general policy which underlies its operations, needs to be carefully re-examined in the light of the wider requirements of the national interest. The conclusion, we believe, can only be that a relaxation of the restrictions on foreign borrowers is overdue. It may be added that there seems to be no really satisfactory reason why loans to British borrowers should be intrinsically sounder or more economic than those to foreign borrowers. The admission of British borrowers to the London market on preferential terms must, therefore, be attributed to political factors and on balance, at the present time, the advantages do not appear entirely to outweigh the disadvantages.

Growing Importance of Medium-Term Credits

Government intervention in financial business has not, however, been confined to attempts to regulate overseas capital issues and other large capital transactions abroad. The Government has encroached to an increasing extent in recent years on the preserves of private enterprise in the important field of short-term credit and the increasingly important medium-term credit.

Medium-term credit, bound up with the export of capital goods is, relatively, a modern development. It is largely a consequence of slump conditions and the drying-up of long-term capital exports; foreign borrowers, unable to obtain funds on long term have been driven to borrow as far as they can on medium term. Medium-term lending of the type which has developed since 1932 has enabled countries which cannot meet all their past obligations to single out small and specially safe transactions for financing abroad. Importers have been the more able to use this machinery because lending countries have been anxious to increase their exports and have been prepared, in certain circumstances, to overlook past bad debts. This represents a common-sense attempt to prevent unliquidated past obligations from interfering unduly with current trade of a beneficial nature. And it can usefully continue as a permanent feature, since it will always be a useful method of financing specific desirable projects in countries which are not immediately creditworthy, or transactions which are too small in size to be financed economically by the traditional methods of foreign lending. There is no reason why private institutions should not play an increasing part in medium term financing, though hitherto it has been carried out mainly by government enterprise.

Moreover, there is a certain permanent economic foundation to the increase in the importance of the medium-term credit. This is due in some degree to the smaller scale of many individual capital projects to-day as compared with some of the large scale developments of the past. New capital expenditure for the purpose of purchasing additional rolling stock or for constructing machine shops, for instance, is likely to be less heavy than the original capital expenditure for the construction of main-line railways. This tendency will probably persist as increasing emphasis is laid on the development of light industry. For the purpose of the modern capital project, therefore, the total funds required in the first instance may well be smaller than in the past, and the time required for amortisation may, consequently, be shorter. The speed of technical progress in modern times, also, demands that plant should be written off more rapidly on account of obsolescence.

The Export Credits Guarantee Department

Developments in this field have largely taken place under the influence of government. While the authorities have adopted a negative attitude in the case of long-term capital exports and have sought to prevent new foreign issues being made in all but certain approved cases, they have taken a positive line in encouraging the extension of short and medium-term credits used to finance British exports. Government policy has been implemented through the medium of the Export Credits Guarantee Department of the Board of Trade, which, it should be noted, has counterparts in several other countries exercising approximately similar functions.

The Department was founded shortly after the war for the purpose of insuring for British exporters on a short-term basis their business with certain countries where the credit risks involved were considered to be very high—higher in fact than established financial institutions were disposed to regard as legitimate business risks. For many years, the Department dealt principally with Russian business, but its scope has, in the course of time, been greatly enlarged as regards the countries covered, the length of credits eligible for guarantees in certain circumstances, and the contingencies against which credits may be guaranteed.

From dealing with credit risks on current trade in a relatively small group of countries where business was particularly difficult, the operations of the Department have been extended to the guarantee of credits on exports to any country for a period of up to ten years. Subject to certain conditions, transfer risks as well as credit risks (i.e. the risk of insolvency of the importer) can now be covered. In practice, the Department appears to be very reluctant to guarantee extended credits, and transactions involving credits of more than two to three years duration have probably been rare and credits of this length are only usually guaranteed in the case of exports of machinery. The guarantee of credit risks applies only to U.K. exports (other than munitions) and does not normally cover more than 75 per cent of the value of the goods shipped. In practice, however, disclosure of costs and of the margin of profit may be necessary in order to qualify for cover of a percentage as high as this. From the point of view of the trader, also, the limitation of the guarantee to a proportion only of the total value of the transaction, tends to make the guaranteed credit a less satisfactory instrument than the ordinary trade bill if he wishes to recover cash immediately by discounting.

The rates charged vary within the discretion of the Department, but are definitely lower for regular customers or those who insure all their export business with the Department under a "comprehensive guarantee." As the business is not large enough to permit the assessment of charges on a completely actuarial basis, and as none of the business is reinsured, rates tend to be high. Certainly large profits must have been made on the Department's guarantee of trade with Russia, and it is sometimes said that these have been used to subsidise business elsewhere. The Department has, in the course of years, accumulated a substantial reserve out of profits. This has been paid into the Exchequer, but is recoverable in case of need.

Cover for transfer risks is given in addition to cover for credit risks only on the following conditions. The Department is prepared to guarantee to an exporter of United Kingdom goods *invoiced in sterling* that he will receive from a solvent buyer 75 per cent of the sterling value of those goods six months after the original due date of the bill of exchange or account, provided that all import requirements and exchange regulations have been fully and punctually complied with. The guarantee normally covers only goods shipped within three months of the date when the cover is issued and will not necessarily be renewed. The Department reserves the right to alter its premium rate for transfer cover for shipments to a given country at any time; premiums of course vary with different countries as well. The Department may also at any time decline to provide further transfer cover on any country beyond its existing commitments, if it considers the country in question to have bought enough already in relation to its capacity to transfer sterling. If the Department has to pay up under its guarantee, it retains a charge upon the proceeds of recoveries until its payments have been recouped *with interest.* Transfer cover is not given for individual transactions. In view of the immense complications of the business, transfer cover to any country is normally available only to exporters *who insure the solvency of the whole of their overseas buyers* under the Department's Comprehensive Guarantee.

The Department is possessed of certain advantages which are denied to private institutions. Its information service is indisputably better, partly owing to sheer efficiency, due to no small extent to its ability to build up its foreign relationships *de novo*, but partly owing to the access to the government commercial intelligence service which it enjoys as an official body and an adjunct of the Board of Trade. In the second place, it is backed ultimately by the full financial resources of the State. The latter advantage can, however, be exaggerated. There is no doubt that the principal reason for the Department's success has been the exceptional commercial ability with which it has been run and the extent to which it can spread risks all over the world.

The Dangers of Government Competition in Commercial Activities

It is usually argued that the Export Credits Guarantee Department does not compete with private institutions, since it is undertaking business which no private institution is willing or able to take in view of the risks involved. This argument must be critically examined. It is, of course, true that private institutions cannot protect traders against transfer risks and are normally very cautious about increasing their commitments in countries where the exchange risk is high, whatever the intrinsic merits of the commodity transaction under consideration. The Export Credits Guarantee Department provides cover against transfer risk, at a fairly stiff price, as long as the situation seems moderately safe, but reserves the right to refuse cover—in the same way as private institutions—if the situation becomes dangerous. Moreover, by stipulating that traders wishing to cover *exchange risks* on any transaction must insure *credit risks* on all their overseas business with the Department, the latter is taking care that it should get plenty of good risks as well as a few bad ones. It is too often assumed that the Export Credits Guarantee Department is only there for the purpose of taking bad risks which private institutions cannot shoulder.

In fact, it will only do so provided that it gets as well business which private institutions might be very glad to undertake. When the Department is called upon to fulfil its guarantee to pay sterling on an overdue debt, it does so subject to the retention of power to recover with interest when the debt is eventually met. As only 75 per cent of the value of the transaction is insured in the first place, the exporter is not therefore by any means immune from loss.

From a business point of view, the Export Credits Guarantee Department has been an undoubted success. In fact, its financial success really constitutes one of the chief reasons why the principle involved must be critically examined in relation to long-term policy. The Department's activities are usually defended on the grounds that it does enable business to be done which would otherwise be impossible, that it is operated on purely commercial lines and that it has proved profitable in operation. Considerable emphasis has been laid from time to time on the fact that it is not designed to subsidise exports. On the first point, no one can deny that the Department has performed an invaluable function in promoting British exports at a time of great economic difficulties. In many cases, the Department's guarantee of transfer risks enabled business to be done, which could not be covered by private institutions, and which, therefore, could not otherwise be transacted. If the premiums charged are high, they are only proportionate to the risks involved. But it should be noted that in accepting this type of business, the Department is careful to cover itself very thoroughly, and the trader is by no means immune from all loss. The principle of leaving the trader with some liability in the event of a default is, on the whole, to be commended as an encouragement to prudent trading. But the conditions under which the Department accepts the heavier risks must tend to raise the cost to the firm using the Department's facilities of conducting all its overseas business. For the Department is not in existence only for the purpose of carrying bad risks which private institutions cannot shoulder, but does so only on condition that it receives other business on which the risk is not abnormal. And on this other business the rates charged tend to be higher than those which prevail on the open market. Approval of the Department's activities in facilitating difficult transactions must, therefore, be qualified by appreciation of the fact that it tends to increase the cost of exporting as a whole. The services of the Department will always continue to be valuable in promoting development lending to countries where conditions are difficult. But if and when conditions of international trade become easier there is some danger that the Department's encroachment on the field of ordinary commercial business will become a much more serious problem, since it will tend to perpetuate a high level of costs in the financing of exports. If the Department existed merely to assist British export business to areas where special difficulties exist, this criticism would not arise. But, in fact, its activities are by no means confined to this, and consequently its position has become the dangerous one of a privileged State-owned institution operating on a commercial basis and making profits in competition with private institutions. It is this hybrid nature of its activities which is the principal cause for concern, and it would seem that sooner or later the question will have to be faced whether the State is to take over responsibility for financing the whole of the British export trade or whether its activities should be strictly confined to assisting only those exports where assistance is very obviously needed.

The Decline of Traditional Methods of Trade Financing

The question may well be asked—if the services of the Department are in part identical with those which private institutions can render, and are given at a high cost, why do traders use the Department and disregard the private institutions? The question is pertinent, but the answer is to be found in part in the fact that the average manufacturer and trader have lost contact with the traditional machinery of trade and finance and no one has made it his business to see that such contact is maintained or renewed. At one time a very large volume of the trade of the world, not merely trade which concerned Great Britain as an importer or an exporter, was transacted in sterling and financed through the machinery of the banks and acceptance and discount houses of the City of London. Notwithstanding the fact that the procedure of drawing bills and of acceptance and discounting is complicated and a matter for experts, large numbers of manufacturers and traders were, before the war, accustomed to trade by means of bills of exchange. They did so largely because the expert advice necessary to this method of trading was readily forthcoming. It was readily forthcoming because banks the world over wanted good London trade bills for their investment portfolios. Hence, they were prepared to take trouble to see that an ample supply of bills was always coming into the market.

The Machinery of the Bill of Exchange

It may be appropriate at this point to give a short sketch of the methods by which trade is financed by bills. A British importer may require to finance a shipment of oranges from Brazil. He is unwilling to pay cash until he has not only received the oranges but had the time to dispose of a substantial proportion of them on the market; at the same time the Brazilian exporter is unwilling to export except under conditions where he can obtain reasonably prompt payment. In order to meet both these requirements the British importer can go to an acceptance house in London or a British bank undertaking acceptance business and arrange with them to open a Documentary Credit in favour of the seller in Brazil. This may be opened in sterling, in which case it will probably be payable in London, or in Brazilian currency, in which case it will probably be payable in Brazil through a local bank acting as a correspondent to the London issuing bank. If it is a "Confirmed Credit" it bears the guarantee of payment of the paying bank as well as of the issuing bank. The Brazilian exporter draws a bill on his London debtor and, having made the shipment of oranges, takes it together with all the necessary shipping documents to his local banker. The local banker recognising the name of the London acceptance house which has opened the credit, will, usually, be prepared to buy the bill from the Brazilian exporter, who is thereby paid off, and will forward the bill to its London agent for negotiation together with all the documents concerning the shipment. The London agent presents the bill to the London accepting house for acceptance and, having secured acceptance, hands over the shipping documents which enable the British importer to take delivery of the oranges. The London agent for the Brazilian bank can then either hold the bill for collection from the acceptance house as it becomes due, or can obtain prompt cash by selling it in the London discount market where it will be regarded as a desirable security. The importer meanwhile sells the oranges and from

the proceeds provides the acceptance house with the necessary funds to meet the bill when it falls due and at the same time pays a charge which will not normally exceed 2 per cent per annum on the value of the transaction, as a reward to the acceptance house for having lent its credit-worthy name as a guarantee of integrity. The acceptor is, of course, obliged to discharge the bill on its due date whether or not he has been put in funds for the purpose by the importer.

Acceptance houses do not only lend their names to assist British importers. They have also traditionally done a large volume of business in the reverse direction—involving acceptance of bills on behalf of foreign importers—and also business in which Great Britain is not concerned at all, either as importer or exporter. In doing business abroad, however, they do not normally deal directly with the foreign importer but with a foreign bank. The London house in effect undertakes to accept bills obtained by the foreign bank from its clients up to a total amount outstanding at any one time. The greater part of the sterling frozen in Germany under the "Standstill Agreements" originated in business of this sort. The principal asset of an acceptance house must obviously be very detailed knowledge of the credit standing and integrity of the importers and bankers whose bills it may be asked to endorse and its charges will vary according to the confidence which it can place in its customers. In fulfilment of their functions, therefore, the acceptance houses before the war accumulated a vast store of knowledge of the standing of firms and individuals not only in this country but abroad, where each concern has always tended to specialise in particular countries. To this extent, the acceptance houses became, as it were, the intelligence service of the whole banking system and the agency through which the debt of one individual to another could be transformed into a negotiable London bill. Acceptance business forms one of the most important activities of the "merchant banks," though its proportionate importance has declined in recent years and many merchant banks have branched out in other directions, such as the finance of British industry. The joint stock banks also play a large part in the acceptance of bills, but bill business does not constitute such an important part of their total activities as in the case of the merchant banks. Most of the merchant banks also act as issuing houses, through which the loans or securities of foreign borrowers are introduced to the London market. This side of their business has inevitably almost disappeared in recent years but has been replaced in part by similar activities on behalf of domestic borrowers.

The Bill Market

The development of the system of financing trade by bills depended ultimately upon the existence of an active bill market. This is provided by the discount houses whose business consists entirely in buying and selling bills. They operate almost entirely upon borrowed money, often obtained on a day-to-day basis from the joint stock banks. The joint stock banks have, in fact, looked to the bill market as a means of employment for their surplus cash and a source from which can be obtained bills of a sufficiently safe character and of the desired dates of maturity for inclusion in their own portfolios. In times of stress, the bill market is dependent upon the rediscounting facilities of the Bank of England and is, in fact, the entrance point for the Bank's control of the monetary system by the machinery of Bank Rate.

As long as the banking system remained regionalised, there was always a good demand among local bankers for liquid investments and for this purpose bills drawn in such a form that they were readily negotiable in case of need in the London bill market, ranked high. Consequently assistance for local manufacturers and traders in drawing bills in proper form was readily forthcoming. The bill of exchange was the most important medium for conducting foreign trade and bills were also used largely for internal transactions. The inland bill has long since disappeared with the growth of the internal financial resources of industry and the increased use of the overdraft as a means of financing trade transactions, which is attributable to the growth and integration of deposit-banking. In addition, sterling was without dispute the major currency of the world, so that apart from the greater part of British overseas trade, much other trade was customarily invoiced in sterling as well. This helped to swell the business of London and probably contributed towards keeping its charges cheap. Various circumstances have combined to alter this background since the war, to the detriment of London's business in financing world trade, and these must be shortly examined.

The Decline of Sterling as a World Currency

The use of sterling as a common trade currency certainly declined immediately after the war and never fully recovered, even following re-stabilisation in 1925. London had begun to lose its monopoly in the finance of world trade; in addition certain classes of bills were regarded as suspect, and charges were dear. Many foreign traders, also, either through increasing nationalism or through fear of exchange instability, became reluctant to transact business with the United Kingdom except in their own currencies. This, of course, reacted adversely upon the supply of sterling bills and meant that the British participant in the transaction bore the exchange risk. In addition, the instability of sterling itself lessened its attractiveness as a "neutral" currency in which trade between two foreign parties could be conducted. Five years of stabilisation did something to restore the volume of London's business, but not to pre-war levels. The depreciation of sterling in 1931 administered a further shock, though sterling has subsequently recovered some of its prestige as an international currency. In addition, the imposition of exchange restrictions in many foreign countries has created the further risk that the individual debtor, though perfectly solvent in his own currency, may be unable to obtain sterling exchange for the purpose of transferring payment. This has obviously still further affected the ability and willingness of foreign traders to assume liabilities expressed in sterling. Hence the use of the sterling bill has suffered an all round decline, in spite of its cheapness, because the risks involved in its use, which were at one time almost negligible—particularly to British traders—have now become formidable owing to the instability of exchanges and restrictions on the free movement of funds. A further factor contributing to the decline of sterling as an international currency has been the declining importance of organised commodity markets. These are mainly situated in London or Liverpool and quote prices in sterling, and formerly a large proportion of the purchases and sales of commodities entering into international trade took place through them. Since the war, direct trading as between producer and consumer has increased, and is not necessarily conducted in sterling. Operations on some of the commodity exchanges have become confined more and more to hedging transactions.

Changes in the Structure of Banking and the Money Market

But at the same time, the popularity of the bill of exchange as a medium for conducting trade has been affected by a more fundamental change—declining demand as a medium for investment. The disappearance of the country banks and the substitution for them of the highly centralised system of the clearing banks has led to very radical changes in the character of British banking as a whole. Local branches need no longer be concerned with maintaining their individual liquidity to the same extent which prevailed with the private banker; amalgamation has in fact led to economy in liquid resources. And when earning capacity only is considered, the making of advances on overdraft is a much more lucrative business for bankers than the discounting of bills.

In so far as some of the assets of the clearing system must always be held in readily realisable securities, the trade bill has, of course, remained in demand along with other short dated securities. But at the same time there has been a very large increase in the volume of Treasury Bills and other short-dated Government debt in the market. There is no doubt that in the post-war decade with a high rate of return available from lending on overdraft, and a plentiful supply of Treasury Bills bearing high rates of interest, the clearing banks were not compelled to make undue efforts to see that the volume of trade bills in the market was maintained. The volume of Treasury Bills issued by tender rose from £10 millions at the end of 1913 to over £550 millions at the end of 1929 and over £600 millions at the end of 1936. This enormous increase in the volume of Government paper has transformed the bill market and for ten years after the war gave the banks most of the turnover in bills that they could reasonably want in a form which needed very little expense in management. In consequence, there is some reason for believing that many British manufacturers and traders to-day would not know how to use a bill of exchange even if they wanted to, because it has been nobody's business in the past twenty years to teach them. It would not be at all surprising to find that the business of the London acceptance and discount houses, heavily curtailed as it is by currency instability and exchange restrictions, includes to-day a higher proportion of transactions on behalf of foreigners than before the slump. Many British firms prefer the easier, but infinitely more expensive method of financing through the Export Credits Guarantee Department which probably now insures about one-quarter of the country's total exports, or financing on overdraft, which is also more expensive than the bill.

Need for Revival of the Trade Bill

In the changed conditions of the money market of the last few years, since the heavy fall in the rate of interest, there is some evidence that the clearing banks are beginning to regret the decline of the trade bill. The volume of the Government's floating debt has been reduced and the interest to be earned on Treasury Bills has fallen to the neighbourhood of ½ per cent per annum; at the same time industry has become less dependent upon the banks for advances to maintain working capital and the banks themselves have been forced to invest an unusually large proportion of their assets in the gilt-edged market. With the Treasury's insistence on the continued maintenance of cheap money and the demands of rearmament borrowing upon the gilt-edged market,

there seems to be little prospect that bank balance sheets will be relieved of a disproportionate reliance upon investments in Government securities for some time to come. Alternative investment opportunities would undoubtedly be very welcome to the clearing banks. It is not without significance that one of the clearing banks which issued in 1925 a short brochure for the instruction of its customers in the machinery of foreign trade financing by means of bills, should suddenly have repeated the publication of this booklet in 1932 and in practically every year since. A subject which was disregarded between 1925 and 1932 has suddenly attracted renewed interest since the latter year.

Undoubtedly, on the score of its cheapness alone, the advantages of the bill of exchange require to be brought again to the notice of the trader. The acceptance houses and the joint stock banks might well consider the possibilities of co-operation for educational and propagandist purposes in an effort to re-establish the trade bill. At the same time, if the chief recommendation of the trade bill—its cheapness—is to be made the most of, it is essential that the cheapest possible rates should be achieved by an overhaul of the machinery of acceptance business itself—in which the most important factor is the efficiency of its information service. In this connection, the geographical specialisation which the principal acceptance houses have always maintained is the soundest method of arriving at an efficient organisation.

With the decline in the use of the trade bill and the greatly increased difficulties which surround its use, there has probably not been much direct competition between private institutions and the Export Credits Guarantee Department. Should the trade bill show any tendency to revive in popularity, however, an increasingly difficult position would be likely to arise. Unquestionably the Department fulfils a useful function in covering risks to certain countries which the open market hesitates to touch and in covering transfer risks which the market does not touch at all, but it does so only on condition that it gets also business which private institutions might be glad to handle. The Department has, moreover, special facilities, in access to the official intelligence service, which the market does not possess. As trading under an Export Credits Guarantee is also comparatively expensive to the trader, it does not seem altogether satisfactory in the national interest that a Government institution possessing certain special advantages should continue to encroach on the field formerly served by private enterprise if there is any prospect that private enterprise is likely to perform the same services more economically.

The Effect of Exchange Uncertainty on Invisible Exports

Apart from the ignorance of the public in the machinery of its use, the chief obstacle to the increased employment of the London trade bill as a means of financing trade is exchange uncertainty. British traders can *avoid* the risks of fluctuations in foreign currencies only if they are able to insist on transacting business in sterling, as they did for the most part before the War, though they can *cover* the risk of fluctuation by forward exchange operations. But it will only be possible to plant the exchange risk on the foreigner by insistence on the use of sterling if the financial facilities offered by London are so superior to other available methods of finance in point of cheapness that the saving

covers the risk, for the foreigner, of using sterling. Moreover, as long as sterling remains an unstable currency, it is difficult to see how it can exercise much appeal as a medium for transacting business entirely between foreigners—the type of business which at one time accounted for a large percentage of the turnover of the London money market and of the country's income from invisible exports.

It is, of course, true that this does not apply over the substantial area of the world which is known as the sterling area, while the tripartite exchange agreement of September 1936 between the United Kingdom, France and the United States has done something to increase international confidence in the exchange stability of the three currencies concerned from day to day. But even these conditions do not offer over much security, as is shown by the recent indications of a possible revaluation of the Swedish Kronor, and the fact that the Tripartite Agreement is, virtually, only on a twenty-four hour basis. In addition to the risk of currency fluctuation, there is also to-day the risk in doing business with many countries that the sums due cannot be transferred. There is no way of avoiding this risk or of covering it in the open market, though the Export Credits Guarantee Department will cover part of it at some expense and subject to conditions which have been outlined earlier. But it is essentially a slump phenomenon and may well be expected to decline in severity as the balances of payments of the hard pressed countries take a better turn in consequence of a better equilibrium in the price relation of primary to other commodities. The creditor countries have it in their power to hasten a return to better conditions in this respect by the judicious use of "reconstruction lending" where the circumstances are propitious.

Something can probably be done to increase the cheapness and popularity of the trade bill by overhaul of the financial machinery, but this can only go some part of the way towards restoring the turnover of London trade bills. The principal obstacles to increased turnover are exchange instability and interference with the free movement of funds. Exchange instability is, therefore, having the dual effect of keeping up the cost of trade financing and keeping down the United Kingdom's income from invisible exports. The importance of maintaining income from invisible exports and of increasing it at this stage has already been touched upon. The extent to which London's financial services, which make up a large part of British invisible exports, are employed by the rest of the world depends on three factors—the volume of world trade, the price at which London can offer its services in competition with other centres, and the extent to which foreigners regard sterling as a safer currency than their own, or some other, in which to transact business. The first factor is conditioned largely by the state of world economic activity, which British policy can profoundly affect, although it is altogether dependent upon wider considerations. London's superior competitive position reacted much to the British advantage before the War, but was not so much in evidence in the period 1920-30; there is reason to believe that something of the pre-war competitive position of London is now capable of restoration owing to fundamental internal changes. The lack of confidence of foreigners in sterling as a medium for transacting business is obviously the most powerful influence at work at the present time. It arises, as has already been mentioned, not so much from any active demerit on the part of sterling as from unwillingness on the

part of foreigners to commit themselves to liabilities which they may be prevented from meeting. The truth is that all currencies are to-day regarded as unstable in the last resort since all can be revalued if the circumstances are sufficiently urgent. The fact that at various moments, and in response to various changes of financial opinion, certain currencies may be regarded as less unstable than others affects the movements of loose international funds, and tends on the whole to increase instability and to menace the progress of world recovery. Such changes of opinion, however, do not materially alter, but may even strengthen the determination of the individual trader to conduct as much business as possible in his own currency in order to leave the exchange risk with his customer.

De facto and *de jure* Stabilisation

As long as this instability and the effects of it persist, a major recovery in the income received by the United Kingdom from its invisible exports is out of the question. It may be argued that sterling has shown a high degree of stability *de facto* in the last two or three years. Against this, however, it is doubtful whether the existence of a *de facto* stability is enough to recreate that confidence in sterling as an international currency which is necessary for an expansion of British invisible exports. Accordingly, the problem should be squarely faced of whether Great Britain has not at the present stage gained as much as there is to be gained by maintaining the independence of sterling and whether from now on there is not more to be gained on balance from a *de jure* stabilisation.

The U.K. Government, while reserving freedom of action, has from time to time declared its intention to re-stabilise sterling eventually. In the first place, it is clearly unwilling to do so as long as other important currencies remain free or markedly out of alignment with their "real" exchange parities. Doubtless, other governments feel the same way as regards the stabilisation of their own currencies as long as sterling remains a "free" currency. To this extent the re-stabilisation of any major currency can probably only be brought about as part of an international agreement—an agreement probably involving a much wider measure of international financial co-operation than the world has known hitherto. But it should be noted that the feasibility of such an agreement has been greatly increased by the realignment of currencies *de facto* which took place in September 1936. The period of "managed currencies" dating from 1931, if it has been accompanied by almost unprecedented exchange fluctuations, has, at least, emphasised the value of international co-operation in currency and exchange policy.

In the second place, the British Government is presumably concerned with "allowing sterling to find its own level" and adequately "testing" any rate before fixing upon it as the rate at which a *de jure* stabilisation can be undertaken without risking a serious maladjustment. In practice, the freedom of sterling to fluctuate is, at the present time, severely circumscribed by political considerations, arising largely in the United States, and by the superior resources of the United States in particular for seeing that sterling is maintained within limits which are politically acceptable. In practice too, the appropriateness of any given rate can only be tested by one criterion—its effectiveness in maintaining a reasonable equilibrium in the balance of payments. Under existing

conditions it is very difficult to measure the criterion itself. Prior to 1931, changes in the balance of payments were accurately reflected by movements of gold in and out of the country. This is not so to-day when large movements of gold may take place as a result of purely capital transactions which do not affect the balance of current payments. The intervention of Exchange Equalisation Funds complicates still further the task of disentangling trade movements from capital movements. Before 1931, the Board of Trade's estimate of the balance of payments could hope to arrive at a fairly accurate statistical measurement of the position in spite of inherent weaknesses. To-day, fluctuations in the value of sterling from week to week rob them of much of their former validity. In addition they would appear to combine estimates of payments received with estimates of payments due, which, in a world where exchange restrictions and frozen commercial debts are important, are by no means the same thing. Moreover, some of the figures are evidently very roughly estimated and items of some importance are probably not included at all. If, therefore, attempts to measure the true position of the balance of payments cannot, in current circumstances, hope to attain a very high degree of accuracy, the resulting statistics lose some of their value as a criterion against which various exchange rates can be "tested."

If, in addition, we are right in believing that a *de facto* stabilisation at any given rate will not create the same confidence in sterling as a *de jure* stabilisation at the same rate, with the consequence that invisible (and to some extent visible) trade is curtailed, it would appear that the circumstances in which a *de facto* stabilisation at the "right" parity are achieved, are liable to alter immediately that stabilisation *de facto* is translated into stabilisation *de jure*. In other words, we may arrive after a great deal of experimenting, at a rate which appears likely in the existing circumstances to secure a reasonable equilibrium, but as soon as legal effect is given to the chosen rate, a new set of circumstances is created. Taking all these factors into consideration the conclusion emerges that it may be an impossible task to attempt to arrive by empirical means at a rate on which stabilisation can be undertaken with complete safety. The necessary information does not exist for a scientific approach and can never be obtained. But in searching for the perfect scientific rate, we are continuing to deny ourselves the benefits which stabilisation could, with some certainty, be reckoned upon to bring and which would make it easier to maintain any rate which we happened to choose than it is to maintain the same rate in existing circumstances.

There is, therefore, an obvious risk inherent in any attempt at stabilisation of choosing the wrong rate. If, however, the compensating advantages are strong, this is no argument for continued inaction. The example may be cited of the Belgian currency which, early in 1935, was devalued and re-stabilised on gold at a rate which represented rough equality with sterling calculated, as was admitted at the time, on the "purchasing power parity" basis. Subsequent events have shown the chosen rate to have been as close to the economic equilibrium of the belga as could have been obtained by months of elaborate experiment. Apart from this, the technical task of testing adequately any given rate may be infinitely complicated by the sporadic influence of capital transfers, whether "hot money" seeking speculative profit, or "panic money" avoiding political disturbance.

Effect of Internal Conditions on Currency Policy

British reluctance to re-stabilise sterling may well be due in a large degree to the memory that the post-war stabilisation of sterling at the pre-war parity with the dollar turned out in course of time to have been a major error of judgment. As fâr as it is possible to tell, however, the attraction of the pre-war rate was traditional and political rather than the result of considered judgment. It is also necessary to allude to certain respects in which the international economic position of Great Britain has altered since 1925. In 1925, major economic and technical adjustments necessitated by the dislocations of the War had still to be made and were in fact never effectively tackled until the 1931 slump. At the same time, the United Kingdom then had no tariff and such imperial preferences as then existed were of negligible importance in relation to the total volume of external trade. Moreover, the technique of international financial co-operation with a view to minimising unnecessary pressure on the exchanges was less perfect than that which has subsequently been evolved. And in addition, a troublesome budgetary and internal debt problem to some extent hampered the free working of currency and credit policy. In all these respects, the position of the United Kingdom is indisputably stronger in the year 1937. Moreover, the requirements of British internal policy are daily becoming more closely associated with external factors. In 1931 and 1932 the United Kingdom wished, for internal reasons, to pursue a policy of internal credit expansion and since this was at variance with the ideas of many other countries, this end could only be achieved by a managed currency policy which freed sterling from any international responsibility. By 1937, the majority of the nations of the world have come to share the views of the United Kingdom in this respect. Furthermore, while the process of economic recovery has, in course of time, brought production for the home market into a condition bordering upon full employment, certain branches of the national economy which are more intimately associated with external activity have remained, if not depressed, at any rate seriously under-employed. In approaching the problem of British financial policy at this time, therefore, the question needs to be asked whether the policy which was right in the circumstances of the period 1931 to 1936 is necessarily the most suitable policy for the circumstances of 1937? In particular, is the continuation of an indiscriminate stimulus to internal activity, swollen as it is by the over-riding necessity of construction for re-armament purposes, likely to lead to permanent stability? We believe that there can only be one answer to this question—that a boom based mainly upon the home market is too insecurely founded to persist for more than a definite time, that the trend of events is demanding with increasing urgency the development of external activity as a balancing factor. It cannot, however, be expected that a financial policy which was designed principally for the purpose of stimulating internal activity will prove in any respect effective in encouraging external trade; in fact, it is likely to have a discouraging effect. For this reason changes of the sort which have been examined in this chapter will become increasingly urgent. In particular, an international exchange position will have to be created which will permit the recovery of British invisible exports by once again making it possible and attractive for the world to use the financial machinery of London. Opportunities for undertaking foreign investment of the old "development" type will recur and this should, wherever possible, be linked to British exports of capital goods and, for the sake of future equilibrium, should take the form as far as possible of equity investment.

Medium-term credits may well continue to be important and might be made increasingly by private institutions as conditions become easier. It may, however, be difficult for private institutions to increase their business in competition with the Export Credits Guarantee Department, and for this reason the activities of the Department may need re-examination as the world trade position improves, particularly as they tend to increase the cost of trading. Similarly some modification of the attitude at present being adopted by the authorities controlling foreign issues is becoming increasingly urgent, the more so because the methods of control employed are not such as can enjoy the full confidence of the public. The desirability of "reconstruction" lending to the industrialised debtor countries of Europe can be recognised on economic grounds, but any development in this direction must await the settlement of outstanding political difficulties. When, however, the opportunity is ripe, schemes of economic rehabilitation must be comprehensive and must not rely on financial assistance alone.

It may also be suggested that the international background is very different from that which existed in 1925, if only because central bankers are vastly more experienced to-day and because one of the fundamental factors underlying orthodox central banking policy, the supply of monetary gold, has altered radically. Considerable experience has been gained during the period of managed currencies of the possibilities of insulating the internal currency and credit structure from external disturbances through the technique of Exchange Equalisation Funds, which amount, in effect, to a second line of currency defence. Moreover, there is now in existence an international institution—the Bank for International Settlements—which is potentially an invaluable instrument of international financial co-operation for smoothing over difficulties and making adjustments. It is true that the B.I.S has not hitherto exercised a very conspicuous influence in international financial matters, but this is not surprising in view of the fact that it was not founded until 1930 and was also immediately surrounded by circumstances in which international co-operation has been at a discount. In the third place, it should not be forgotten that whereas ten years ago financial opinion was beginning to become apprehensive of the economic effects of a potential shortage of monetary gold, in recent months it has been displaying anxiety concerning the opposite dangers of a possible gold inflation, should all the existing reserves of the lending creditor countries be brought into effective monetary use. For, in fact, the physical volume of gold production has nearly doubled in the last fifteen years, vast hoards have been disgorged by Eastern countries, and the market value, in terms of money, of all gold, whether newly mined or already in existence, has increased by some 60 per cent. Consequently, the background to the present situation differs radically in three major respects from that which existed in the period 1925-1931. And any new form of international currency system would likewise have to differ from the system in force during that period. Whatever may be the technical arguments about the proper value of gold, it is an indisputable fact that confidence in gold as the ultimate criterion of values has been shaken, and traders are apprehensive of the effects on the general level of prices which a change in the gold policy of any leading country might bring about. If this apprehension is allowed to grow, it may become a powerful influence towards the curtailment of commitments, and so towards a recession in general activity. Consequently, superficial prejudices must be discarded and all of the pros and cons of stabilisation by

agreement need to be carefully re-examined on the basis of the real factors involved. Objections may be raised that stabilisation would automatically create that condition of gold inflation concerning which apprehensions have been widely expressed. But, as mentioned above, much has been learnt in the last six years concerning the mechanism and technique of currency management, and it should not be difficult to turn this experience to good account in devising adequate safeguards for a new international currency system.

VIII. AGRICULTURE AND INTERNATIONAL TRADE

Summary

(i) The traditional interpretation of the economic history of the United Kingdom in the last century lays great emphasis upon the significance of imports of cheap food from overseas. And the great food-producing territories overseas have hitherto provided one of the most important markets for British exports. The cutting down of U.K. agricultural imports since the passing of the Agricultural Marketing Acts of 1931 and 1933 has probably reacted adversely on British export trade in manufactured goods and services. It is, therefore, sometimes argued that the policy of agricultural protection should be abandoned. Rigid specialisation as between British industry and overseas agriculture is, however, now no longer possible owing to social and strategic considerations. It may even be doubted whether the rigid specialisation of the past was as sound economically as is sometimes supposed, in so far as food shipments from overseas were made cheap at the expense of destroying land fertility. The aim of British agricultural production and import policy at the present time should therefore be to supply the home consumer with cheap food, to develop a prosperous home agriculture for social and strategic reasons, and to maintain and even increase imports of foodstuffs from our best export customers overseas. These aims are not incompatible if the standard of living can be raised; their achievement implies a better specialisation in world agriculture, such as has already been advocated in industry. But it will also imply a reorientation of policy in British farming, both in the technical and in the economic sphere.

(ii) Far-reaching changes have already taken place in world agriculture, and are still continuing. These have led to increasing productivity per unit of human labour. At the same time, population trends in the chief food importing countries are slowing down the rate of expansion of food consumption and imports. These and other factors have been driving agricultural workers off the land in all Western countries, in spite of increasing government intervention to keep them there. The problem of redundant agricultural population, and the political measures taken to alleviate it, must affect international trade for some time to come.

(iii) The process of adjustment demands, first, the development on an economic basis of alternative occupations, and, second, improvement in the mechanism of trade in order to facilitate more efficient distribution of agricultural produce.

(iv) It is becoming increasingly misleading to think in terms purely of primary producers and industrial countries, since each group is tending to become more diversified in activities. The United Kingdom's agricultural industry, for instance, does not

compare unfavourable as regards size with the agricultural activities of some countries which are always thought of as essentially primary producers.

(v) In formulating British agricultural policy, the aims to be pursued should be—the maximisation of the national real income, the improvement of real incomes on the farm by methods which will not injuriously affect other incomes, the assurance of ample supplies of cheap and good food to consumers, the most economic utilisation of the land and the maintenance of its fertility, protection against the evil consequences of over-specialisation in times of war or slump.

(vi) Farm incomes depend not only on the volume of farm production but on the value of the produce sold at the farm gates. Value per unit may be raised by improved processing and distribution and by concentrating on the production of commodities which must be consumed fresh and which tend to command the highest prices, importing products where freshness is less important.

(vii) The lengths to which this process might be pushed on economic grounds are modified by strategic and social considerations. The requirements of National Defence raise a number of questions regarding the respective efficacy of different policies of immediate development and of food storage, in meeting various possible emergencies.

(viii) Within these limits, there is great scope for raising British farm incomes, by increasing the productivity of labour, by better grading and weeding out of inferior produce in order to concentrate on the quality market, by the development by producers of processing in order to dispose of gluts and extend seasonal markets, and by reducing distributive costs.

(ix) It should be the object of government policy to prevent a conflict of interests between the home farmer and the home consumer on the one hand, and the home farmer and the export manufacturer on the other, by putting every pressure consistent with democratic methods of government upon the British farmer to transfer his activities to producing those products which he is best fitted to produce on competitive terms. The low-income consumer must be left as free as possible from the influence of tariffs and other devices tending to raise the cost of his food. In this way, the sterling purchasing power of overseas primary producers, and consequently British exports, will be maintained and the rise in the standard of life facilitated, while concentration on quality in home production and efficient marketing will ensure the home farmer an expanding market, as the standard of living rises, at higher average prices.

(x) Within the last few years, the United Kingdom market has been subject to uneconomic pressure from overseas supplies which have had virtually no other free outlet of importance. British and world agriculture has a vital interest in the development of alternative markets in other industrial countries and the elimination of weak selling. This may be achieved by better trade mechanism and the encouragement of consumers to overthrow trade restrictions in search of improved nutrition and a higher standard of living. The social necessity for an increased

material standard of life in all industrial countries is undoubted. Its achievement depends upon the extent to which certain ideological illusions can be overcome and the social demand translated into effective economic demand. The educational movement in favour of improved nutrition has already markedly affected public opinion in this direction.

Any comprehensive treatment of agriculture as such is outside the scope of this report, but it is necessary to indicate briefly the general direction and extent of the agricultural factors which it is important to take into account in considering the future of international trade.

Reactions of Agricultural Policy upon International Trade

The traditional interpretation of the economic history of the United Kingdom in the last century lays great emphasis upon the significance of cheap imports of food from overseas. The building up of an intensely specialised industrial structure was, in truth, due in a large degree to the development of overseas territories as producers of cheap bulk foodstuffs. And the practical necessities of their development, and the prosperity which followed upon large shipments of foodstuffs for consumption in the United Kingdom, undoubtedly contributed much to the expansion in British exports of goods and services. Since the war, and particularly since the passing into law of the Agricultural Marketing Acts, imports of overseas foodstuffs into the United Kingdom have been increasingly subject to regulation in accordance with the new agricultural policy which has sometimes been described as "the British farmer first, the Dominion farmer next, and the rest nowhere." It is argued that this policy has reacted adversely upon the British export trade in manufactured goods and services by depriving some of our best customers of part of the purchasing power which would otherwise be spent here. Holders of the extreme free trade view go on to condemn the principles of British agricultural policy root and branch for this reason. They imply that all the efforts of the United Kingdom should be devoted as far as possible to industrial production and that the United Kingdom should seek a degree of international specialisation, as between industrial and agricultural activities, which may once have been safe and beneficial, but must now be subject to modification by social and strategic factors. It may even be doubted, in the light of subsequent events, whether the economic benefits of extreme specialisation as between agricultural and industrial countries in the past were really as great in the long run as is sometimes supposed. At any rate, the devastation, or threat of devastation, of a substantial proportion of the cultivated area of North America, through erosion and drought, following upon years of intensive cropping, suggests that the cheap food which these territories have supplied to the world may not, in the end, turn out to have been as cheap as appeared at the time. For, in so far as overseas primary producers have been supplying cheap food by, as it were, mining the fertility out of their land, they have been using up capital assets and, in industrial phraseology, failing to make sufficient allowance for depreciation in the price of the product. The British farmer can have legitimate cause for complaint if he is expected to compete in price with production obtained on this basis, while at the same time putting back into the land what he takes out.

The position must be faced, therefore, that the home consumer must be supplied, in the interests of industrial and social progress, with a sufficient quantity and variety of cheap and nutritious foods; that a prosperous home agriculture is desirable for social and strategic reasons; and that a flourishing import trade in foodstuffs must be maintained from some of our best export customers. It is too often assumed that the first and third of these requirements are entirely incompatible with the second. This is not necessarily so. There is a place both for the home producer and for the overseas producer. What needs to be encouraged, in other words, is not rigid specialisation as between British industry and overseas agriculture, but a better specialisation and division of function within agriculture the world over. In this respect, the economic problem of agriculture is no different from the economic problem of industry which has been fully discussed in other chapters of this report. Fulfilment of this objective will require from British farmers a reorientation of policy both in the technical and in the economic field, with the ultimate aim of producing in this country on an economic basis the foods for which our soil and climate is most suited, and importing those which are more economically produced elsewhere. The outcome should be a higher standard of life for the British consumer, the restoration of British agriculture to a position of reasonable prosperity, and the maintenance of a large and perhaps increasing import of foodstuffs from primary producing customers overseas.

Changing Structure of World Agriculture

All over the world far-reaching structural changes have been taking place in agriculture and are still going on. One of the main effects of these changes has been greatly to reduce in certain products the amount of human labour needed for a given quantity of production. Had there been a very large increase in the world consumption of agricultural produce, the resulting displacement of farm populations might have been at least partially offset. This has not happened, however. One reason is that technical progress in utilisation, packing, transport and storage have reduced the element of waste, and brought successfully to the consumer a larger proportion of what is produced on the farm. Another reason is that the rate of population increase over a large part of the world is slackening, and in some of the most important consuming centres is coming to an end. A third reason is the dislocation of international trade and the checks arising out of the war. A fourth reason is the rapid increase not only in the populations but in the material standards of life of great cities. All these and other factors have tended to push or pull very large numbers of agricultural workers, including farmers, outside the industry in Western countries, especially in those countries where average real incomes have been rising. This process is older than the recent agricultural depression, which has for a time retarded rather than advanced it. In fact, the more prosperous agriculture becomes in future, the fewer people are likely to be able to keep a foothold on the land and the more sub-marginal land is likely to fall out of cultivation. The pursuit of a higher material standard of life is leading to a feverish pace of industrial activity in the towns and to more and more intensive competition between farmers of different areas for markets, while agriculture as a whole must contest with more and more rival claimants the use of land, rural labour and credit. The result has been to produce increasing dissatisfaction arising out of rural feelings of

frustration or inferiority on the one hand, and the emotional starvation of most urban life on the other.

The displacement of rural inhabitants in Europe is one of the greatest that has ever occurred, and naturally almost every nation has attempted to cushion the impact by one means or another. Tariffs, quotas, subsidies, credits, agrarian and land settlement measures, or even sheer coercion have been and are being employed in order to stem the almost universal flight from the land. In the long run, it can hardly prove possible on the one hand to enjoy at all fully the fruits of modern technical industrialism, and on the other to keep on the land a large stable population which must necessarily, in order to avoid labour displacement, be chained to traditional methods of production which are wasteful and irksome. The world will probably have to choose eventually between the two, but at present a large part of it is resolutely attempting to choose both. The long-term significance of many of the current difficulties besetting international trade will be missed if we overlook the existence of this vast and world-wide army of now redundant farmers and farm workers who cannot remain on the land without increasingly substantial State intervention to keep them there. Until some sort of equilibrium is reached between agriculture and other occupations, it is hopeless to expect a relaxation of the political, social and economic pressure which lends force to international trade restrictions.

The Process of Adjustment

This does not mean that nothing can be done. On the contrary, if the problem of the agricultural populations is appreciated it becomes possible to make the transition stage very much easier for all concerned. In the first place, the measures which we have already suggested in Chapter V and elsewhere for facilitating the development of secondary industries in countries at present mainly given over to primary production, would help to relieve the strain by creating growing openings of alternative industrial and commercial employment, such as already exist in the United Kingdom and the United States, for example. Even more important is the development of the trade and financial mechanism for placing surplus agricultural products on external markets, at a reasonable return. It must be remembered that even primary producing countries need certain primary products which they cannot themselves supply, either for agricultural use (such as the pedigree livestock which Great Britain exports to other stock-raising countries, or the store cattle and feeding stuffs imported for the home livestock industry), or else to fill gaps in home production for the industrial or retail market. In this, as in other ways, it is becoming increasingly misleading to think in terms of primary producing countries on the one hand, and industrial countries on the other. To-day almost all countries have both industrial and agricultural interests, neither of which can be treated as insignificant. Even Great Britain, the classic example of an industrialised country, is a larger primary producer than is often appreciated. For one small commodity, hops, England was actually in 1936 the largest producing country, accounting for nearly a quarter of the world supply. England and Wales have nearly four times as many sheep as Germany, and nearly twice as many as France: more pigs than Denmark, and more than twice as many as Holland. Great Britain has recently ranked fourth among European oats growers, and fifth among European potato growers, with a potato crop equal to nearly half that of the United States.

Even in the case of wheat, during 1930-34 Great Britain's average annual production of 51,000 bushels about equalled that of such wheat-growing countries as Czechoslovakia and Bulgaria, and was half as great as the Roumanian crop, although only one-seventh of the Canadian total. The annual value of all agricultural production in England and Wales in recent years has amounted to approximately £200 millions per year. This is about the same as the agricultural income of Canada in recent years and compares with approximately £150 millions in Australia, £40 to £45 millions in New Zealand, £1,600 millions in the United States, and £900 millions in Germany. The German figure is very probably an over-estimate. The number of persons employed on the land in Great Britain (including owner-occupiers) is approximately 1,100,000. This compares with about 1,150,000 in Canada, 575,000 in Australia, and something over 100,000 in New Zealand. Germany and the United States have respectively 9 and 10 million persons on the land.

The Aims of British Agricultural Policy

We do not in this report subscribe to the view that British agriculture is so important a potential market for British industry as to justify special measures for its development on that account. It is, however, suggested that the arguments in favour of giving all possible opportunities for secondary industries overseas are also valid in the case of home agriculture.

The aims to be kept in mind in agricultural policy may be stated as:

(*a*) To maximise the real national income of the United Kingdom.

(*b*) To raise the real incomes of British farmers by methods which will not injuriously affect other British incomes.

(*c*) To assure ample supplies of cheap good food to the British consumer.

(*d*) To make the best use of the land and keep it up to the highest pitch of economic productivity.

(*e*) To insure so far as possible against the dangers which arise in war and slump from putting too many eggs in one basket.

There is no clash between (*a*) and (*b*) so long as it is remembered that farm incomes should and can be raised without depressing other incomes. Methods which do depress other incomes are prejudicial to (*a*) and must eventually react on (*b*).

Raising Farm Incomes

Farm income, and therefore the farmer's standard of life and ability to command other goods and services, depend not on the volume but on the value of his products at the farm gates. Value per unit may be raised by improving quality, by improved grading, processing, packing and distribution. Total value may also be raised by increasing the number of units sold, through methods which do not unduly depress the unit value.

It follows, therefore, that in order to raise real farm incomes and to make the best use of the land, our general agricultural policy must be to concentrate upon products which

must be consumed fresh and are usually of high unit value, such as milk and cream, eggs, fruit and vegetables, poultry, fish and meat, importing products where freshness is less important (or which are out of season here). It is possible, taking a purely economic standpoint, to say that all of certain home demands (such as that for fresh milk) should be met by home supply, while certain others should be met entirely from overseas sources. In the case, say, of bananas and oranges, the point is obvious. In the marginal cases of wheat and sugar, however, although on purely economic grounds there may be no justification for any home production, a practical use for it may appear when we take into account the need for insurance (especially against war risks of food shortage) and certain technical agricultural factors such as rotation and by-products. For instance, it is doubtful if anyone would deliberately produce cheap cow beef in England on its own account, but milk production involves killing off old cows whose beef is a by-product which cannot be wasted.

Considerations of National Defence

The defence approach emphasises the nearness of Great Britain to starvation during the 1917 submarine campaign, and the risk of acute shortage in the event of a future war. It is pointed out that we import at present from overseas over three-quarters of our needs of wheat, about half our beef, 58 per cent of our mutton and lamb, 69 per cent of our bacon and ham, 44 per cent of our eggs, 86 per cent of our wool, over 90 per cent of our butter, and at least two-thirds of our sugar. In addition, a large part of home production is in turn dependent on imported cattle feed, fertilisers, and so forth. The assumption is sometimes made that we can and should greatly diminish, and in some instances actually terminate, this dependence upon sea-borne supplies and upon the small food stocks, sufficient in the case of many products for only a few weeks' requirements, at present kept in this country.

There can be no question that in case of a European war the national food supply would be a source of great difficulty and anxiety. The search for insurance against these risks raises, however, a complex set of questions. What we require is (*a*) the maximum practicable stock of essential foods in order to guard against risk of being starved out by cutting off of overseas supplies; (*b*) the maximum practicable reserve capacity for making up stocks indefinitely as they may be drawn upon in case of need; and (*c*) the safest, cheapest and most convenient means of storing and distributing supplies between the time when they leave the farm and their ultimate consumption. As regards (*b*) there can be no question that in the event of overseas transport being stopped or dislocated in war, while internal transport remained reasonably unhampered, it would be an immense advantage to be self-sufficient, or more nearly self-sufficient, in essential foodstuffs. In so far as self-sufficiency were attained before the outbreak of war, this advantage would be realised from the outset, but if it were necessary to effect a large increase in food production or to switch over from dairying to, say, grain, meat and sugar, a period of at least eighteen months would be necessary before results could be expected. A sudden and complete stoppage of shipping would, however, entail starvation within a short period unless the stocks of food held safely in readiness in the United Kingdom were very greatly increased. No amount of capacity for developing or switching over home food production would

therefore avail against a breakdown of overseas transport in the first eighteen months of a war. Even if maximum home production of essential foodstuffs were to be reached and maintained regardless of cost and inconvenience in time of peace, the position would become little less precarious without an enormous increase of storage capacity in order to carry over the supply evenly, regardless of seasonal production, and also to provide a reserve against the heavy natural fluctuations in year to year crop yields. Even on the extreme assumption of a total interruption of shipping and no interruption of internal transport, the advantage of a great increase of home production would therefore be limited except in the case of a very long war, on these terms, or except in so far as it would give certain reserves, such as additional livestock, which could be slaughtered.

The primary difficulty, and in many possible contingencies the only difficulty, is storage capacity, and given storage capacity it would almost certainly be cheaper to hold reserves of food bought from overseas rather than reserves of food produced at home. If we assume the risk of an intensely destructive war of more than eighteen months' duration, in which case agricultural self-sufficiency would offer great advantages, the questions arise whether the additional protection could be afforded, and if so whether spending the huge sum involved on home production of wheat, meat, sugar, and so forth would be more advantageous than spending it on, say, an immensely stronger air force to minimise the risk of attack, a strong navy to guarantee supplies, or even on large overseas investment designed to revive world trade and relieve the pressure towards desperate adventures on the part of other nations. It must not be overlooked that even to maintain existing production on existing lines requires very heavy imports of feeding stuffs and fertilisers requiring a large tonnage of shipping. The question of use of man power would also have to be considered, for any agricultural policy dependent on the efforts of a large force of able-bodied men would hamper military and industrial mobilisation, and it does not follow that peace time production would be maintained, let alone increased under war conditions. Whatever the merits of the defence argument for expanding agriculture, it is therefore one which can only be seriously considered with full regard to defence policy as a whole. Obviously, however, in the event of trouble a well-organised and efficient agricultural industry is an asset.

Transition to High-grade Agricultural Products

Subject to these qualifications, British agricultural policy should aim at producing more and better high-grade, high-value products for which the climate is suited, and less of other products. In this way—

(*a*) British farm incomes can be raised.

(*b*) A minimum of interference is required with the entry of cheap food supplies from abroad.

(*c*) The best use can be made of the land.

We cannot deal here with the methods of improving agricultural production and distributive processes, of reducing costs and widening markets in some directions and at

the same time getting higher prices for special products by better grading, marketing and so forth. These problems are being dealt with by another P E P Group and it must suffice to say that there is very great scope for raising British farm incomes—

(*a*) By increased volume of production per person employed, through cutting out manual drudgery and improved management of processes.

(*b*) By better grading and weeding out of inferior produce, thus concentrating supply in the quality market which yields the highest prices.

(*c*) By fuller development of producer-controlled processing in order to dispose of gluts, or to extend seasonal markets.

(*d*) By reducing distribution costs and by securing for the farmer a greater share in what the consumer pays.

A reconciliation of the long-term interests of the British consumer and of home and overseas producers depends on the development in home agriculture of an emphasis on quality and a willingness to discard relatively unsuccessful lines, comparable with the policy which has proved of value where it has been applied in the case of British export industries. In this connection it is of the highest importance to get away from misleading general descriptions such as "beef," and to distinguish between what are in effect different commodities with different markets—frozen beef, chilled beef, cow beef, baby beef and high-grade home-killed beef. It should be the government policy to prevent a clash between home farmers and home consumers on the one hand, and between export industries and home farmers on the other hand, by using all the the resources of leadership, propaganda, education, research, trade pact negotiations, tariffs and quotas, levies and subsidies, with the object of persuading and compelling the British farmer to transfer his attention as rapidly and completely as possible to those products and combinations of products which he is best fitted to produce on competitive terms. The aim should be to leave the low income consumer as free as possible of tariff and other interferences which may make him pay more for his food and therefore consume less, or consume lower qualities all round. By this means the sterling purchasing power of overseas primary producers, and consequently British exports, will be assisted, and rises in the standard of life facilitated, while concentration on quality in home production and efficient marketing will assure the home farmer an expanding market at higher average prices than low-grade products could yield. It can safely be assumed that groups of consumers with a rising standard of living will buy a rising proportion of home-grown foods, without any pressure through tariffs or other restrictions, provided that these foods are produced and marketed efficiently.

Qualifying Factors

It is not proposed here to enter into the technical question how far, in order to keep the land in good heart, it may be necessary to grow certain crops which might not be grown from the point of view of their economic realisation value. This is a qualifying factor, but no more.

The same may be said of the dangers arising from putting too many eggs in one basket. These are of two types—those due to war (which have already been discussed), and those due to slump.

As regards risks of slump, short-term adjustments due to gluts and seasonal fluctuations can be dealt with by organised marketing arrangements such as the Agricultural Marketing Schemes have endeavoured to provide. Long-term depressions due, for instance, to a major financial crisis, cannot be obviated by measures confined to agriculture, but even so their impact can be very much softened by pooling arrangements and by adequate study of market trends, if the results of such study are translated into practice.

Even the imperfect national and international pooling and regulative mechanisms built up since 1930 can, if wisely directed, help to protect farmers in all countries against uncontrolled fluctuations and to adjust production to economically effective demand by less abrupt and wasteful methods than have operated in the past. It is the common interest of home and overseas farmers and of consumers that price fluctuations should, as far as possible, be evened out over as long periods as possible, instead of being allowed to upset calculations and cause constant unsettlement by violent and unnecessary oscillations. The fear of dumped surpluses is even more real in agriculture than in factory industry, and provision for preventing sudden gluts from breaking the market is as vital to the producer as provision for preventing scarcity and high prices is vital to the consumer.

Increased Consumption of Foodstuffs in all Industrial Countries

There is some reason to believe that in the artificial conditions of the past few years, when the United Kingdom proved almost the only remaining import market for many products, supplies have sometimes been obtained at uneconomically low prices. In so far as this has occurred, the British primary producer, inside and outside the United Kingdom, has a vital interest in reopening alternative markets in other industrial countries, and the elimination of any element of weak selling in primary products.

Methods by which this may be achieved have been discussed elsewhere in this report. Broadly speaking, the most promising lines seem to consist of:

(*a*) Improvements in the mechanism of world trade designed to find, develop and stabilise conditions in new markets;

(*b*) the creation of stronger incentives to overcome trade restrictions, by means of propaganda and education for improved nutrition and higher standards of living.

While (*a*) has been elaborated in Chapter V, and earlier, (*b*) requires some explanation. The coincidence of the adolescence of the war generation with a tremendous economic depression caused a general upsetting of values, in which demagogic ideals were able to oust to some extent the desire for material advancement. This process was aided by the failure of the leading industrial nations to cope with their economic problems, and by the failure of economic advisers in general to take adequate account of the new psychological, social and political factors which will be discussed in Chapter IX. Given

economic recovery in the democratic nations, and given a greater appreciation of non-economic factors, the tendency must be for peoples who have temporarily been fascinated by illusions to shake them off and return to sanity. This process may be accelerated by such propagandist and educational movements as the international nutrition campaign, which in the short time since it began has already captured popular imagination in certain countries and has markedly affected opinion over a wider area. If energetically pursued, this movement may build up the new outlook required to enable the strength of economic nationalism in agricultural policy to be modified by appreciation of the consumer's needs. And if the obvious social demand for increased consumption of foodstuffs and a higher material standard of life the world over, can, by improving political goodwill and the mechanism of trade, be translated into effective economic demand, not only would most of the existing world problems of agricultural over-production be solved at a stroke, but a fresh expansion in productive capacity would probably become necessary.

IX. THE INFLUENCE OF POLITICS ON INTERNATIONAL TRADE

Summary

(i) This chapter is different from the rest of the Report, and serves as a background for it. Justification for its inclusion is the increasing influence of politics on economic activity, which is now culminating in rearmament programmes radically affecting the economic future of nations. The chapter confines itself to an examination of the facts and elucidation of the motives underlying them; no attempt is made to justify any theory.

(ii) The consequence of the war was to remove, temporarily, the influence of a number of nations and to leave the world reconstruction to Great Britain, France, the United States, and Japan. At the same time, the newly reaffirmed principle of national self-determination gave the impetus to the new smaller nations to begin building up their national structure (often based on the peasant farmer).

(iii) The victorious powers reacted variously to the new conditions. The United States proceeded to lend prodigally, but refused to afford means of repayment through goods and services. France set to work to build up a rigid politico-economic structure in Europe to perpetuate her "security" against Germany. Great Britain realised how valuable was her island position and how immensely valuable in a crisis was the Empire, and proceeded to consolidate and develop the latter. Italy, first, mishandled opportunities and then became preoccupied with the internal phase of Fascist development. When she began to turn to world affairs, her attempts at exercising influence were abrupt and opportunist, and created many points of friction. Japan tried to establish herself as premier nation in the Far East, but encountered the collaboration in the matter of naval limitation of Great Britain and the United States—both in search of peace—and interpreted this as a menace to herself.

The League of Nations was set up as an admirable piece of politico-economic machinery, but with the fatal weakness of no executive authority—with the result that fundamental differences were never faced.

(iv) Of the defeated powers, Germany set herself to cultivate commercially those areas where Germans were accepted. This was carried out by the export of goods, services and brains. Germany also built up relations with Russia, which was regarded by her as the rich "hinterland" to serve as a basis for German economic and military reconstruction. Russia, at first, concentrated on fomenting world revolution, and when this proved a failure, turned to building up her internal economic structure, and to establishing spheres of influence in the neighbouring small countries.

(v) On the eve of the depression, the nations of the world seemed to fall into four main groups: the victorious powers who wished to pursue peace and tranquil evolution (Great Britain, the United States, France); the victorious powers who were discontented (Italy, Japan); the victims of the war, then reviving; the semi-developed countries, where national self-assertion was stirring (Near East, China, etc.). Some of the factors which restrict world trade to-day were, certainly, implicit in the post-war settlement, but were being accentuated during this phase and others were created. Increasing pressure and friction were being felt and the well-meaning attempts to solve fundamental problems by linking political appeasement with economic reconstruction were neither sufficiently bold nor timely: neither the United States nor Great Britain nor France seemed able to appreciate fully their responsibilities, or to realise that factors were gathering force which soon could no longer be controlled.

(vi) The slump exposed the unsoundness of the world economic structure, and deprived the United States and Great Britain of the means of controlling world events. The nations were thrown back on their own resources, crisis measures overwhelmed conventional methods, confidence was undermined, and exclusive political creeds arose. Measures taken, first, to alleviate a crisis became established as social and political principles, and the increasing encroachment of the State into economics resulted in the breaking down of the ordinary methods and standards of commercial intercourse. Under the combined pressure of all these factors, all sense of proportion was lost, and the last vestiges of any moral order in politics and economics were destroyed.

(vii) In this welter of crisis measures, two events seem to stand out as shaping profoundly the future trend: the invasion by Japan of Manchuria, and the Ottawa Agreements and the change in British colonial policy. Whatever the motives or explanation of the invasion of Manchuria, the event showed conclusively that war was still the ultimate instrument of national policy. The League of Nations hesitated and finally could do nothing, while an opportunity of bringing the United States into world affairs as a beneficial influence was missed by Great Britain.

The Ottawa Agreements (and the abandonment of the Open Door policy which followed them) were, in the light of circumstances, inevitable, but they gave ground for the argument that Great Britain was using political authority to achieve economic results. Thus there arose the doctrines of "Hungry Nations" and of the "Economics of War."

(viii) The creators of the Ottawa Agreements did not regard them as ends in themselves, but as a starting point for negotiations for a series of other treaties. The results, however, served mainly to stabilise the competitive position of the United Kingdom during a period of crisis and contributed little to general reconstruction. The World Economic Conference was a half-hearted attempt at the latter, and its failure must be attributed as much to American scepticism and to British short-sightedness as to any other single cause. But even before the Conference the clash between internal politics and foreign policy in the United States had a profound influence on world events. The Hoover Moratorium might have been the starting

point for constructive statesmanship, had the American administration been able thereafter to play its part in world events. At the Conference the British Government failed to modify its newly adopted attitude of protectionism and freedom of sterling, and therefore the two economic leaders of the world, under the pressure of crisis events, were obliged to give up that leadership. The main world issues were left untouched, and various crisis measures which had been adopted as expedients now began to be used as weapons for political ends by the new powerful and unscrupulous forces which had arisen.

(ix) Simultaneously with the arrest of progress of Japan in the Far East when confronted by the rapidly growing power of Russia, there occurred the National-Socialist revolution in Germany. Herr Hitler at first was too preoccupied with internal affairs to reject the idea of an equitable agreement of a politico-economic nature with the other Powers. But French intransigence and excessive British caution resulted in opportunities being missed. Meanwhile, economic difficulties and the pressure of rearmament drove Germany further towards arbitrary measures of politico-economic control, culminating in the Four-Year Plan, which is the most perfect manifestation so far seen of the "Economics of War".

Of the several areas, politico-economic domination of which would seem to be advantageous to Germany, penetration to the South East, with ultimate emergence into the Mediterranean basin, seems to offer most prospects of success. German policy in that region as well as elsewhere—e.g. in Spain—can best be explained as aimed at ensuring safety of supplies and assistance in an emergency.

(x) The position of Italy and Italian aspirations seems to be similar. Italian policy in the Eastern Mediterranean, and probably also in the West, seems to be aimed at establishing politico-economic control over wide areas and lines of communication, which would render impossible a successful application of economic pressure such as seemed likely during the Abyssinian war. Thus the politico-economic aims of Italy coincide with those of Germany in certain areas, with the result that if both countries vigorously pursue their objectives their policies may sooner or later come into conflict. But on the short view, the Rome-Berlin axis must rest on political factors, because it is increasingly weak economically.

(xi) In the Far East, Japan's acquisition by force of Manchukuo did not give her the economic advantages expected, and has involved further military adventures. Russia, however, is now immensely stronger than five years ago, and is extending and strengthening her political and economic influence in Inner Mongolia and some of the Chinese provinces. At the same time, China, as a result of Japan's aggressive policy and Russian penetration, is experiencing a remarkable process of internal consolidation, a phenomenon which nothing else could have brought about.

In Russia the development of the new nationalist phase of Bolshevism and the growth of Russian industry, and especially gold production, are making Russia

into a world factor again. Russian economic resources are so great that use of them must profoundly affect the world situation—for instance, through the medium of gold sales on the world market.

(xii) With revival in trade, the effect of finance on political alignments is once more becoming emphasised. This has always been the French policy, and France has recently tried to reaffirm it by granting large credits to Poland; but whereas France requires tranquillity and freedom of communications and economic intercourse, her undue insistence on political and military factors is, in this sense, short-sighted.

(xiii) As the United States are a dominant factor in world affairs, the latest developments there in connection with the neutrality legislation may well prove decisive in the event of a crisis. Both in the Manchurian affairs and in the Abyssinian war, America took steps which, if exploited properly, might have resulted in constructive collaboration with the rest of the world. American opinion, however, received what it considered to be a rebuff, with the result that the United States have now adopted an attitude which can still be exploited constructively by other peace-loving nations, but which, in the event of the outbreak of war, must inevitably place America in a dilemma of choosing between maintaining absolute neutrality—thus renouncing all rights—and interfering, thus destroying the whole elaborate fabric of absolute neutrality. The United States, therefore, will have to work out with further precision the implications of being one of the dominating economic factors in a world ridden by politics. Great Britain, for its own part, cannot long continue to maintain a contradiction between some of the principles underlying the present development of Empire economic relations and those put forward by other nations with legitimate or imaginary grievances, or even by British statesmen in the international field. Neglect or postponement of these issues are dangerous, because they encourage the use of force and involve Great Britain in the economics of war, which, in view of her highly complex structure and vulnerability and the scattered possessions of the British Commonwealth, is a very great disadvantage.

(xiv) The half-hearted attempts at prevention of aggression taken by the other nations served to show the aggressor nations that complete economic self-sufficiency was absolutely necessary to ensure safety in case of a really effective application of economic blockade. The external and internal effects of the economics of war are different. Externally, more and more high-handed methods must be employed to secure the supply of essential materials, and this makes deeper the cleavage between the "haves" and the "have nots." Internally, the economics of war impose a process of forced saving on the community, and the limit is only the resistance of the community to an indefinite decline in standards of life. The economics of war thus introduce a new phase into world development, and their failure would probably mean the total collapse of the regimes advocating them and heavy damage to the economic and social structures of the nations concerned. It is possible that to avert this end these nations might resort to war as an outlet, and it is therefore imprudent for the other nations to ignore this possibility. But the economics of war are also forcing other nations, and particularly Great Britain, to use their pros-

perity for the wrong ends. The question therefore arises whether appreciation of significant events has not been too tardy and whether there has not been overmuch hesitation in following out the implications.

(xv) The world has too recently suffered the horrors of prolonged deflation to be able to face it again, but if competitive rearmament is allowed to proceed unchecked and economic co-operation is not re-established, a swift deflation will occur, followed inevitably by another collapse. The world's present social and economic structure can hardly survive such another shock. But there are certain welcome signs. The revival of activity has heartened the smaller nations and enabled them to make moves independent of the Great Powers towards co-operation. The recent steps taken by the Oslo Powers, and—even more significant—the tendency towards economic consolidation of the Danube Basin, are extremely important, because their development and consolidation would more than compensate for the gradual withdrawal of the nations wedded to the economics of war, through participation in the normal economic intercourse of the world—a trend which, for the present, seems certain to continue. But however energetic the efforts of the smaller nations, real and lasting progress cannot be achieved without first the active support of the chief trading powers, and then their assumption of the initiative again. The caution and suspicion which characterise at present the attitude of Great Britain, the United States and France towards each other, and towards any approaches from the outside, are now largely out of place. And such arguments may already be too late, because events are demanding a regional solution, and nations anxious for such a solution are no longer prepared to argue about formulæ. If so, the risks involved by a new and determined effort to grapple with the growth of menacing forces are less than those inherent in obstinate persistence with obsolete methods. The key to the solution must lie in co-operation between Great Britain and the United States, because in the end the two premier economic powers, to whom lasting peace is essential, influence too profoundly the course of world events to be able to afford to be at cross-purposes, or even not to work in concert. There are signs that the Empire countries, which perhaps can appreciate the American outlook better than Whitehall, are realising the urgency. In the light of the above, M. Van Zeeland's mission contains promise of really fruitful results, provided it is not regarded as a means of postponing the issue. At present official pronouncements do not go beyond well-meaning generalisations, thus leaving the mass of the political and business community largely in the dark. This is unfortunate, because for a real revival of economic activity, consultation and co-operation with those directly engaged in it must be secured at the outset. The outstanding advantage of democratic government is that it can enlist the criticism and co-operation of all the varied elements in a country. This is an advantage to be exploited. The primary conclusion, therefore, is that valuable time should not be lost, as world economic and social reconstruction can only take place during revived prosperity, and forces are now at work which might cause a collapse, the political, economic and social consequences of which would make any reconstruction thereafter immensely more difficult.

Introduction

This chapter must be regarded as different from the rest of this Report, and is intended to serve as a background against which the arguments and suggestions of the other chapters may be considered. Our reason for adding it is that international trade is inextricably bound up with internal, and especially foreign politics, so that it is futile to make any analysis or to outline constructive measures without taking into account the incidence of political factors. We have seen how the rearmament programme arising out of the political developments of the last few years has profoundly affected the economic structure and future of this country. Also, how political groupings and movements throughout the world are influencing the course of trade and the future of territories which are potential centres of economic activity. We therefore considered it imperative to make a survey of the main events and trends in politics over the post-war period. We have endeavoured to show them as they appear in the light of various world events, and to trace what seem to be the motives and consequences of them. In doing so, we have endeavoured to concentrate on what is evident and to avoid hypotheses or prophecies. We are not interested, in this Report, with the rights or wrongs of any particular policy, or the theory underlying it. Our sole object is to elucidate the political factors affecting world economic intercourse and to put forward suggestions for its beneficial development in the social interest.

The Politico-Economic Background of Post-War Reconstruction

The close connection between economics and politics follows from the results of the War and the developments of the post-war period in the first phase—the phase of reconstruction—which lasted down to 1930 or 1931. The powerful economic units of Russia, Germany, and the Austrian Empire, which influenced the economic development of wide areas and played an increasingly important part in the course of world trade, were broken up, and world recovery was inevitably left to the United States, Great Britain and France in the West, and to Japan in the East. At the same time, the principle of national self-determination, which was the basis of the Treaty of Versailles and of the League of Nations, began to permeate more and more strongly the newly-created smaller nations, who thereupon set to work to build up their own national economies. This was assisted and indeed made possible by the vast loans which the United States poured into Europe to enable the latter to buy American goods from industries which had developed rapidly during the War. Thus the United States, by purely economic means, acquired immense political power—a fact which Americans refused to realise at first, but which became almost catastrophically plain when the world depression arrived.

The spread of newly acquired nationalism also became gradually a psychological deterrent against large emigration. This, in any case, was beginning to be discouraged by countries which had hitherto taken large contingents of immigrants. This check, together with the famine and destruction following on the War, led to a concentration on the land to build up again supplies of elementary requirements. The agricultural classes of Europe therefore re-emerged with a renewed importance and, partly from ethnographical and partly from economic reasons, became the backbone of the reconstructed nations. Politically, also, during a period of revolutionary unrest, the satisfied peasant was regarded

by all governments as a stable element. He thus acquired almost a mystical value. A veritable "green revolution" had quietly taken place, and the peasant farmer consequently felt his importance.

The decline of migration has also stimulated a radical development of another sort. Restrictions to the free flow of population and increasing interference with the free movement of personal capital have infinitely complicated the position of discontented or oppressed minorities, and have built up powerful centres of unrest. This has been most evident in the case of the large Jewish communities in many European countries—not merely in Germany, but in other territories also, such as Poland and Roumania. Where these communities are predominantly engaged in trade, as is the case with the Jewish minorities, the economic pressure of the growth of State trading has been added to the more obvious pressure of political discrimination. But in the absence of free opportunities for migration, there has been no alternative for these unfortunate peoples except to submit—with a growing resentment.

The Policy of the Victorious Powers

The victorious Powers reacted variously to the new conditions. The United States, having become a creditor nation, and the most industrially advanced, continued to lend prodigally, but at the same time increasingly refused either to participate rationally in world activities or to allow debtors to discharge their debts in goods and services. The economic disequilibrium built up by the War was thus being gradually accentuated. France, apprehensive for the future of a stationary population and a strained economy, felt convinced that her security depended on the maintenance of the politico-economic structure created in Europe after the War, and therefore built up a chain of alliances and financed the industries of the smaller European Powers, thereby laying—no doubt unconsciously—the first foundations of what was to prove a new war economy. Furthermore, by the consistency of her attitude towards Germany, France shaped the nature and direction of future German politico-economic development.

Great Britain emerged from the War with part of her overseas investments gone, and with a clear picture of the dangers which an island situation involved. At the same time, the tremendous value of the British Empire had been emphasised, and British policy henceforth, in part consciously and in part intuitively, became directed towards the creation of a more comprehensive structure for this Empire. The War had also taught Britain the economic importance, from the point of view both of supplies and of communications, of the Near and Middle East, where new nations had now been created. British policy therefore became inevitably bent towards building up a politico-economic structure in those areas, the value of which the War had made clear. Little by little, the British Empire has begun to shape itself with a centre of gravity shifting towards the Indian Ocean, but with two immensely important outlying groups of islands in the north-west and the south-east—i.e. the United Kingdom and Australasia. The size and importance of the United States and the close economic relations which exist with that country must henceforth influence Canadian policy in some degree.

At the same time, the financial, political and military centre still remains in the United Kingdom, and this fact must of course exercise a profound influence for the future.

The financial losses sustained in Russia and the political dangers which that country seemed to be breeding, made Britain realise that the Empire had to be built on political tranquillity and economic prosperity. This was therefore the keynote of British policy, which henceforth was to be bent on removing causes of friction throughout the world within certain clearly defined limits. In this, Great Britain was helped by the absence for a relatively long period of any possible active rivalry between the bigger nations.

Italy, though she had acquired much territory, yet through lack of experience and internal instability did not participate in the more important streams of post-war development. With the arrival of Fascism, Italy was forced to concentrate primarily on internal reconstruction, and except in a few isolated and apparently minor instances, which, however, were highly significant in the light of subsequent events, Italy did not at first play a large part in the international sphere. In the Far East, Japan, with Germany's and Russia's temporary eclipse and British preoccupation elsewhere, had no rival, and proceeded to establish an economic foothold on the Asiatic mainland and islands, as well as to push migration under pressure of increasing population. Great Britain, Holland, and especially the United States, all saw danger on the horizon. An Anglo-American *rapprochement* followed in the shape of the first post-war naval agreement. This, Japan never forgave. From the economic point of view, the American standpoint was clear. The United States had extensive interests in the Pacific which, if not of vital political significance, were of great economic importance. The United States had, moreover, to safeguard its national commerce and the South American market to which Americans had begun to look more and more. The huge loans given by the United States to these countries after the War have already been mentioned. Holland had a vast and rich empire, vital to her existence, almost unprotected. Great Britain had extensive trade interests in the Far East and Australasia, and a long and vulnerable line of Imperial communications to maintain. British trade, moreover, was deeply concerned with the products of the Dutch East Indies. The War had eliminated German and Russian rivalry in the Far East, and Russia, because of the activities of the Comintern, could not now count on the support of any other powerful State. All this pointed to the need for friendship between Great Britain and the United States, if only because, while in a certain sense trade rivals, they were both primarily interested in normal economic development and political tranquillity. The need for such a new policy in the East was thus logical. Unfortunately, care was not taken at the outset to develop the constructive aspect and to avoid anything which might be interpreted by other nations as provocative, with the result that this policy was never rationally developed and its first symptoms, immediately after the Washington Naval Treaty, were more provocative and less practical than they should have been. For lack of preliminary research and co-operation in a thorough study of all the political and economic factors involved, the Washington Naval Treaty looked too much like an emergency insurance policy and sowed the seeds of provocation and antagonism which soon bore unfortunate fruit.

The political difficulties of the Far East have been further aggravated by the emergence of a new economic factor—the clash of Eastern and Western industrialism. The consequences of the conflict of two systems built up against entirely different social backgrounds and concepts of the standard of living have been profound, and no solution has yet been found to this troublesome economic problem.

The Position of the League of Nations

The League of Nations was to be the instrument of the post-war reconstruction and undoubtedly, through its various economic and social branches, carried out much useful work. Unfortunately, its political responsibilities were differently regarded by what might be described as the British and French groups of nations, with the result that vital political questions were inevitably postponed or slurred over and fundamental economic and social issues were never faced. The availability of essential materials to the world at large, for instance, was never even seriously discussed.

The primary explanation of the failure of the League to deal effectively with really fundamental questions must lie in the absence of any executive authority. The admirably equipped machinery at Geneva for research and co-ordination worked hard and efficiently, but instructions and decisions had always to emanate from a collection of independent representatives of sovereign States who felt themselves primarily responsible, not for the peace and prosperity of the world, but for maintaining the position of their own governments. These, naturally, avoided anything but generalised formulæ, so as to eliminate any risk of revealing fundamental differences which no one had the courage to face, but which were soon to stand revealed.

The Revival of the Defeated Powers

The revival of the nations which had lost the War came later. Germany, whatever may have been the secret activities of militarist elements, realised that the German position could only be re-established by economic reconstruction and expansion. This realisation was no doubt partly due to the pressure of reparations and debts. Germany steadfastly developed industry and rebuilt shipping, and also created efficient international air services—a potent form of penetration in the modern world. In foreign markets the post-war Germany was helped by those Germans who had settled abroad before the War. Germany also deliberately set to work to export brains, so as to establish centres of influence in areas where, for political reasons, Germans were not resented. Thus, in the Far East, certain parts of the Middle East, South-Eastern Europe, Russia and the Scandinavian countries, as well as South America, increasing outlets were being found for the brands "made in Germany" or "built by Germany." Russia was regarded by the Germans as a rich hinterland, on the basis of which Germany was to become powerful again. This connection was both economic and military, and it was probably partly at Germany's instigation that the Soviet attitude gradually changed from militant revolutionary propaganda for its own sake to the building up of a powerful Soviet State.

Soviet Russia at first concentrated on fomenting world revolution. The chief result of this was only to arouse intense hostility in the countries affected. Russian trade policy, too, was at first mainly a vehicle for propaganda, particularly in the East, where the countries bordering on China and India were to become the focal points of Communist activity. Later, Russia decided to build up her own internal economy—a perfectly rational decision for a country which possesses nearly all the raw materials of modern industry. Russian trade policy then came to be dictated by the need to obtain foreign currency, in order to obtain capital equipment, and was therefore directed towards forcing Russian exports on

world markets at almost any cost. The dislocation thus created was not Russia's main objective, even though it may have served to help in creating political unrest—but must be attributed largely to lack of experience and organisation. Parallel with this, however, Russia began systematically to develop trade relations with neighbouring countries, mostly in the East, on a politico-economic basis, and to become established as the economic protector of these countries, thus creating a sphere of Russian influence to serve as a shock-absorber in case of trouble, and, if need be, as the next stage in implementing the Soviet doctrines.

Italy, where developments at first were not dissimilar from those in the defeated countries, was, at this time, slowly coming back into world affairs under the drive of dictatorship, but finding it difficult, owing to lack of technical equipment and adequate finance, to play any important part. Italy accordingly made attempts at different times to establish relations of a politico-economic nature in turn with Great Britain, Turkey, Russia, Roumania and Germany, as well as to feel her way gradually into the Near East. But most of these attempts were dictated by immediate circumstances and were not part of a comprehensive plan. They therefore gave the impression of opportunism, were executed somewhat abruptly and not properly followed up, so that beneficial results were scanty and numerous points of friction were created.

The Politico-Economic Background on the Eve of Depression

About 1930 or 1931 the first phase of post-war reconstruction comes imperceptibly to an end and merges with the second phase, which must be called the phase of economic depression, and persisted at least up to the end of 1933. On the eve of the depression, the world seemed to fall into four main groups. The countries who were victorious in the War, or were not involved in a military sense, whose main interest was reconstruction and economic development of the world, with the elimination of war. These were the British Empire, the United States, France and the democratic Powers of North-Western Europe, and many of the primary-producing countries elsewhere. France, however, was obsessed by fears, and built up a military system to buttress her own and her dependents' position. The second group consisted of those countries which, though not vanquished in the War, were discontented and in these expansionist or self-assertive movements were stirring. The chief examples were Japan and Italy. The third group contained the nations who had suffered worst in the War, and who were recreating themselves, such as Germany and Russia. Finally, there were the undeveloped nations whose national consciousness was awakening, and who thus became first pawns and then formidable independent factors in the future interplay of world affairs. These countries, apart from India and China, were mostly situated in the Near and Middle East, and in North Africa.

It is well to ask ourselves at this stage whether the tendencies of world trade which became acute during the depression in the shape of tariffs, restrictions, economic nationalism, were implicit in the post-war structure and would have developed in any case even if real political appeasement had taken place and the depression had not occurred. It is perfectly true to say that a number of them had begun to emerge at an

early stage after the War, and probably the economic and political self-determination which was such an essential feature of the post-war settlement made some such development inevitable. But, as we have shown earlier, many of these factors were the outcome of crisis measures, which for various reasons have become permanent, and it is probably fair to say that the acuteness of the crisis and the persistence of the measures when the crisis had passed are to a great extent due to the failure to eliminate the political strains which have gradually been intensified since the War.

The Failure to Remove Points of Friction

At the beginning of the depression, certain points of friction were becoming defined. France, through her Central and East European connections, was pressing on Germany and tending to shut out Italy from certain lucrative fields. Germany was making her economic influence felt by France and Great Britain in colonial and overseas territories. Russian influence was appearing through Iran and Turkey in the Mediterranean and the Indian Ocean. Japanese pressure was being strongly felt in the Far East by the United States, Holland and Great Britain, and in the colonial empires. Japan was also coming more and more into contact with Russia in the Chinese Northern and Eastern provinces. Both the United States and Great Britain felt all the above influences chiefly from the trade aspect, so that as long as they were financially and commercially the two strongest Powers, they had the ability to preserve the equilibrium and keep control of the situation if they chose to use it. Certain well-meaning attempts were made, such as the Dawes Plan, followed by the Young Plan, to link economic reconstruction with political appeasement, but world events were already moving too fast, and these attempts were neither sufficiently far-reaching nor timely. The incompleteness and tardiness of these attempts were disastrous, because there was both willingness and ability on the part of the German leaders at that time to join in world co-operation, as soon as the immediate task of German reconstruction was completed. The German people would have welcomed a whole-hearted policy to that end, the success of which would have been a powerful antidote against the internal disintegration which was rapidly setting in.

The United States was not sufficiently conscious of the intricacies of international politics or experienced in the new economic role of a creditor power to understand that the most powerful industrial country and premier creditor nation must profoundly influence the world's economic life, and cannot safely adopt a policy based mainly on contradictory internal factors. Great Britain was dangerously preoccupied by internal economic and financial troubles which were obstinately refusing to be cured. Thus these two nations failed to exercise at the right moment a decisive influence on world affairs. France continued to maintain an attitude based solely on the negative principle of keeping Germany down, and as France was politically the most active Power in Europe this became a permanent policy in the world. Meanwhile, the factors making for a world slump were gathering force, and certain undesirable features of economic nationalism—the fostering of uneconomic industries, prohibitive tariffs, subsidies—were growing fast. The world depression, by depriving the United States and Great Britain of their means of guiding world events and by unleashing certain uncontrollable forces, completely upset the existing equilibrium.

Crisis Measures

The depression exposed the unsoundness not only of the economic structure which had been built up after the War, but of its political basis as well, and caused economic distress and political friction to coalesce. At the same time it became clear that world development depended on the active circulation of goods, services and population, and this stopped when the United States and Great Britain ceased to lend. The international lending of the period 1926-30 had, however, only served the dubiously beneficial purpose of covering up and perpetuating fundamental maladjustments, and was all the time sowing the seeds of its own downfall. There then followed the depreciation of sterling which for the time being destroyed confidence in London as the world's monetary centre and rendered the United Kingdom temporarily incapable of guiding world affairs. The world was thus thrown back on its own resources. The collapse of the structure which had been built up, together with the new political and economic trends which were arising, created a new set of forces which entirely changed the situation. We must at this stage emphasise the importance of psychological factors in influencing world affairs at all times, and particularly at times when the tendency towards political or economic disintegration is strong, as it was at the outset of the depression. The attempts, generally half-hearted and often ill-prepared, of the economically and politically powerful nations to build up the world through the machinery of conferences had apparently failed. Conventional economic and monetary theories lost a great deal of support. New and exclusive political creeds arose and naturally aroused their own opposites. Once again the feeling of solidarity, which had been increasing, was undermined, and when the sanctity of treaties with its rejection of war as an instrument of policy was violated, the last vestiges of a moral order in politics and economics were gone. We do not mean to imply by this that such an order had been in existence. On the contrary, delay in its establishment was one of the fundamental features of the post-war period, but the elements of it were undoubtedly there during the years 1925-29, and have now disappeared because expectancy has given way first to a feeling of insecurity, and finally to fear. This psychological background is of the utmost importance if we are to understand the motives governing the present actions of nations. The depression threw them on their own resources and made them adopt methods of alleviation, the political and economic consequences of which were ignored in the prevailing state of *sauve qui peut*. The sudden cessation of lending and emigration forced many nations back on to agriculture at a time when the falling prices of raw materials still further depressed that industry. What was primarily an economic problem rapidly became an ethical and social one, so that the new creed of economic nationalism which was expressed in the development of self-sufficiency in industry and public works was elevated into a principle of national ethics, under which the status of agriculture became something good in itself and symbolical of a sturdy nation. This outlook happened to blend well with the political aspirations and grievances which were simmering everywhere. At the same time, countries which subsisted on the export of primary commodities found themselves without resources, markets, or the means to purchase, borrow, or pay debts. The resulting economic distress resurrected those revolutionary forces which had sprung up in the chaos at the end of the War, but by this time there were also in existence new counterforces equally strong. Thus for the first time the issue of "have" versus "have not" arose as a political doctrine, not only between classes but also between nations. The economic

aspect of political creeds became not only an internal issue but an international one. Economic disintegration had thus shifted the balance from politics being used for economic development to economics becoming the instrument of politics. This was inevitable since ordinary business methods were breaking down and the State had more and more to step in to take over economic functions. In this process, ordinary standards of business conduct were undermined and the foundations laid for the wholesale breaking of agreements and the establishment of only one criterion—the immediate individual need or will.

The Significance of the Manchurian Invasion

In this welter of crisis measures two events seem to stand out in retrospect as shaping profoundly the future course of world history—the invasion by Japan of Manchuria, and Great Britain's decision to exploit the political aspect of the British Empire through the Ottawa Agreements and the abandonment of tariff equality or the "open door" in the Colonial Empire.

Japan, under pressure of a growing population, and meeting with fear and hostility because of her militant trade policy, seized the opportunity of world preoccupation with the depression to invade and annex part of China. It is arguable how far this annexation was intended to serve as an outlet for surplus population and how far for economic development. Both motives were probably present. This act was but a logical development of the policy which was behind the annexation of Korea, and is typical of the long-term views on politics and economics which have dominated Japan for the past fifty years. Whatever the motives, the result was that the world was suddenly faced with the fact that in spite of pacts, covenants, and multi-Power treaties—war was again (or still) the ultimate instrument of a dynamic national policy. It is immaterial to argue here how far Japan was justified by pressure of events and how far the world system in existence was ineffective in redressing or exorcising grievances—real or imaginary. The actual event made all these considerations obsolete, because a new situation had come into existence. There followed immediately a number of consequences, the effects of which we are experiencing in 1937.

The United States made a prompt move to safeguard the position in the Pacific and to enforce the sanctity of treaties. In this, the American Administration appears to have made attempts to obtain British collaboration, but without success. It is not our object to try and discover the reasons for this, but merely to record the events and, where possible, to indicate the apparent causes. Probably both Britain and the United States did not sufficiently appreciate each other's point of view and motives, and the desired collaboration did not materialise.

What did happen, however, was that the United States received what was considered to be a severe rebuff, and withdrew again into that politico-economic isolation which had already profoundly influenced the course of world events and was to have disastrous results in the next few years. Had Great Britain taken this opportunity of bringing the United States into world affairs at this time, the basis of future collaboration might well have been established, which might have led, on the one hand, to a concerted monetary and economic policy, and, on the other, to such a powerful influence for enlightened

peace as to allay at the outset the fears which were rapidly rising. Opponents of this view argue that nothing practical was on the horizon, and that in any case the difficulties of the United States Administration are such in relation to the wide variety of American public opinion that a consistent foreign policy could not be followed. The answer is that the United States is a tremendous and increasing power in the world, without being in any sense aggressive, and therefore that the psychological atmosphere in the relations between America and other nations must be even more important than that between individuals or classes within any given nation. The opportunity was missed, however, and the League of Nations, lacking a lead from Britain, was placed in the impossible position of having to call itself a League but of knowing that it could not function as a League in this critical situation. Nothing was done beyond mentioning the possibility of economic pressure, but this was not proceeded with, whether because mercantile interests in Great Britain and France short-sightedly thought that they would profit by the situation and therefore applied political pressure on their governments, or for other reasons. Japan was merely antagonised and resolved to continue the policy, while at the same time realising clearly that an economic blockade, had it been applied, would have wrecked the Japanese plans and might even have destroyed the country. Japan therefore set to work to build up a position which would make her self-sufficient in an emergency. This was done by creating a powerful military machine and extending political domination over territories and seas which could be made to supply the necessary material. From this emerged for the first time two factors which are dominating the world to-day: the doctrine of so-called "Hungry Nations" and the "Economics of War." Other countries have not been slow to adopt and improve upon the lessons first taught by Japan.

Political and Economic Repercussions of Ottawa

The Ottawa Agreements were the natural outcome of a new conception of Empire as a group of interdependent units bound together by economic and political self-interest in a time of acute depression. They made clear to the world that the political ties which bound the Empire countries were to be the dominant factor in economic relationships. The contention that all the pacts arrived at at Ottawa were bilateral and achieved only by hard bargaining, and also that the Dominions were independent States under the Statute of Westminster does not adequately meet the argument that the very existence of that Statute and the formulation of the standard M-F-N Clause, so as not to affect the Dominions—as has been pointed out earlier—establish a political factor in the Empire's economic ties. This argument may, perhaps, be weakened, but is not wholly disposed of, by the fact that some of the Dominions interpreted certain of the provisions of Ottawa in a way not advantageous to the Mother Country, and carried out subsequently independent actions not in the least desirable to her.

The Colonial Empire admittedly received a "raw deal" at Ottawa and subsequently had to submit to the reversal of the policy of the Open Door. It is doubtful whether the colonies benefited by this at all, or if the advantage to the Mother Country was as great as expected. Certainly, however, the introduction of discrimination in the Crown Colonies had an immediate deterrent effect on world trade, although it is true that this measure could be, and was, used as a bargaining point in negotiating commercial treaties.

The economic effects of these measures have already been analysed. But these are not the only, nor indeed, the main effects. The psychological influence on the world was wider, more profound and more lasting. Any short-term economic advantage can hardly compensate for the lasting impression on certain foreign nations that Great Britain was henceforward to use political authority in the Empire for her own ends and not in the interests of world economic development as a whole. It is immaterial whether this accusation is wholly justified: what is important is that it exists and has been, for the last few years, repeated and drilled into the peoples of the world with profound psychological results. The Ottawa Agreements and subsequent colonial policy showed the world again that by the successful use of political power, self-sufficiency in raw materials could be achieved with a far-flung empire. They aroused intense envy among the "have-nots," and drew attention to the great vulnerability of the long lines of communications upon which Great Britain's very existence would depend in any sudden emergency. Thus the division of the world into "haves" and "have nots" became once more reformulated, and this doctrine was to dominate world politics for the next phase.

The Failure of the World Economic Conference

It should not be assumed that the Ottawa Agreements were meant either to be exclusive or part of an imperialist policy—as some have tried to make out—or that the unsatisfied nations quickly made up their minds that an active policy against the imperialism of the satisfied nations must henceforward be pursued. Certainly Great Britain and France, and probably some of the unsatisfied nations, hoped that progress could be achieved by other means. Unfortunately, the process of normal development by agreement was delayed and impeded, and meanwhile the hitherto isolated and extravagant political ideas mentioned earlier were allowed to crystallise and to gather force, until they became highly developed instruments in the hands of individuals or organisations. The British Government undoubtedly regarded the Ottawa Agreements as a first stage and proceeded to negotiate a series of other treaties on a bilateral basis with a number of foreign countries situated mainly in North Western Europe. These certainly helped to stabilise the competitive position of the United Kingdom, but inasmuch as they were aimed primarily at arresting the crisis, they resulted mostly in the diversion of trade and contributed little to general reconstruction. The World Economic Conference was a half-hearted attempt at the latter. Its failure must be attributed as much to American scepticism and British short-sightedness as to any other single cause. In view of the fact that President Roosevelt had only just assumed office and was grappling with a financial and social crisis of unparalleled magnitude, it was not surprising that the American administration should have adopted an opportunist attitude. But even before the London Conference, the clash between internal politics and foreign policy in the United States had a profound influence on world events. The Hoover moratorium, put forward partly as a last minute effort to arrest what appeared to be an impending collapse of the Old World (America's debtor and important market), and partly as a genuine gesture of progress, created an opportunity for constructive statesmanship in the politico-economic field which was seized at the Lausanne Conference. The next step lay with the United States. But internal politics in that country, aggravated by the rapidly deepening crisis and

the impending presidential election, made it impossible for the American administration to play its part in world events. What was probably the last chance of saving Germany and Europe from dictatorship and militarism was lost. The prospects of the World Economic Conference, which opened immediately after the devaluation of the dollar, were wrecked at the outset by lack of preliminary agreement between the two countries, which had to agree if the door was to be opened to any constructive development or action by anyone else. President Roosevelt was unable or unwilling to state clearly the United States' attitude, and refused to consider any form of currency agreement, thereby making it impossible to discuss any plan whatsoever of world economic or financial reconstruction. At the same time, Mr. Chamberlain, on behalf of Great Britain, refused to modify any part of the new British protection policy and was reluctant to abandon the freedom of sterling. Thus, the two economic leaders of the world, under the pressure of crisis events and their own internal public opinion, found themselves obliged to give up that leadership, and instead of controlling the political future of the world through economic measures (which, at a time of economic depression, would have been sufficient), subordinated their actions to policies dictated by purely internal factors.

It has often been said that the Conference failed because of insufficient preliminary preparation, and that in future a Conference must not be summoned without adequate preparatory work. Such a statement is misleading, because it does not reveal that the technical preparation was, in fact, largely adequate. What was lacking was proper formulation of, and the will to face, the fundamental contradictions which had existed for some time, and which have now become increasingly revealed. All that the Conference could do, therefore, was to try to "paper over the cracks," and so it took refuge in vague generalities which had neither meaning nor a practical future. It did, however, succeed in setting on foot enquiries into the possibility of regulating the output of certain raw materials which later matured into schemes that have been not unhelpful in rescuing primary producing countries from the worst excesses of the commodity slump.

The world thus began to feel that comprehensive schemes inadequately prepared were useless, and that piecemeal arrangements—pursued with some success by Great Britain and later by the United States—were the best mechanism. While alleviating the problems of individual nations, this process left the main international problems untouched and allowed the new political forces to gather strength and to reduce the economic mechanism to a position of subordination. The inability of the United States to grasp the implications of being the premier world economic factor is illustrated by other events. The silver policy of President Roosevelt, for instance, framed as ancillary to his monetary policy and to suit American silver producing interests, had a violent effect on the Far East, and though eventually modified, gave a clear illustration of how America is constantly, through her economic power, exercising great political influence on the world. This influence the American Administration is then unable to use properly. Moreover, when the Administration does deliberately adopt a political attitude, it often cannot or will not follow out its economic implications. As financial deterioration and growing economic difficulties in many parts of the world set in—unaffected as yet by recovery in the sterling group, which was felt too late to arrest wholly certain trends—new weapons were created such as blocked currencies and the control of imports. These were, in many cases, merely

crisis measures, but in more powerful and unscrupulous hands could and did become instruments for political ends. At the same time, the need for external assistance, which could no longer be obtained in the form of free exchange or loans, caused the smaller nations to regroup themselves round those bigger nations which could help them—the terms of assistance being now based on the more direct ties of complementary interests. Thus Italy began to create a sphere of influence in the Upper Danube valley.

The Significance of Nazi Foreign Policy

At this stage begins the third phase of post-war politico-economic development, the phase marked by the growth of the "Economics of War." There now occurred the National Socialist revolution in Germany, and this coincided with the arrest of the progress of Japan in the Far East when confronted by the rapidly-growing power of Russia.

Whatever may have been the original intentions of the National Socialist Party and their nationalist and militarist allies about the re-creation of German political power, Hitler had, in the earlier stages, sufficient internal difficulties to contend with to be genuinely keen to make an equitable agreement of a politico-economic nature with the Western European Powers. There is evidence that the purely political aspect of the colonial question was not originally of such paramount importance as to prevent attempts at its solution on purely economic lines. Any opportunity which may have existed was not taken—because of the inherent cautiousness of the British authorities and their consequent reluctance to commit themselves in a set of circumstances the outcome of which was obscure. France also rejected concrete efforts at political agreement, and Germany set out on a totalitarian course in which politics and economics, at home and abroad, were to be closely knit into a single whole. But this process is gradual, and even now the pattern of it may not yet be irrevocably cast. The conception of Russia as the economic background for German expansion—reference to which was made earlier—may not have been completely rejected in spite of evident political antagonism, and may still be part of the schemes of military and heavy industry opinion. Certainly, German credits to Russia have not been stopped—and have even been extended. But quite apart from any plan, such as the above, which would, of course, make Germany largely independent of other countries, Dr. Schacht certainly has never abandoned the idea of bringing Germany back into the orbit of normal economic intercourse as and when circumstances would be favourable. In this, however, he has been opposed by the more Socialist and isolationist school of National Socialist thought. Meanwhile, however, his direct methods have, admittedly, been extremely high-handed, as they must be in order to be effective in a drastic economic situation which is full of contradictions and absurdities.

Dr. Schacht's economic plans have been based on bilateralism of the more rigid type. As political friction did not decrease, while internal pressure, due to greater radicalism, grew and the over-riding requirements of rearmament rapidly expanded, he has been increasingly forced into measures more and more arbitrary and further removed from ordinary economic intercourse. In this he has approached nearer to the system of strategic necessity which the military authorities and some of the more extreme political chiefs were working to create. This system no doubt was partly a compromise between the markedly

divergent views of various ruling elements in Germany, and it has now resolved itself into the Four Year Plan, which is the most perfect manifestation so far seen of the "Economics of War." We have already mentioned in earlier chapters the methods adopted for securing the necessary minimum of foreign trade, as well as the widespread antagonism which these have tended to arouse, thus defeating their own ends. If they are to be regarded merely as short-term attempts to establish an immediate political lien on certain countries —if only by making these countries dependent on Germany for military equipment, transport, etc.—then the technique adopted is understandable in the light of German political aspirations. The obvious shortcomings are probably mainly due to that congenital lack of finesse which was so evident in German policy before the War.

Two main aspects of German policy may be distinguished, of which the first is favourable and the second detrimental to world economic progress. The first is the development of overseas connections through shipping, air services, contract services, etc., in which barter and similar arrangements play an important but not a predominant part, and which serve to maintain some volume of overseas trade and to "show the flag." The other is a systematic politico-economic consolidation in areas adjacent to, or within easy access of, Germany. It has often been suggested that this will involve ultimate penetration of the Ukraine and, perhaps, the north-east Baltic countries. But such a policy would involve an exceedingly difficult and hazardous military campaign, and secondly, would not give Germany what she really requires. In fact, the development of Russia as Germany's economic "hinterland," which was alluded to earlier, is much more rational and admits by implication the above difficulties. This interpretation is supported by the fact that Herr Hitler's continuous attacks have been directed not so much upon the Soviet Government itself as upon what he feels to be the Jewish domination of it and upon the activities of the Comintern. It is significant that Stalin's recent "clean-up" has been anti-Jewish in effect.

German Penetration of South-Eastern Europe

A more advantageous policy for Germany would seem to be penetration to the south-east, with ultimate emergence into the Mediterranean basin. Such a policy would give Germany access to wheat, timber, meat and fruit in the Danube and Balkan countries, iron ore, copper, zinc, lead, pyrites in Austria, Hungary, Roumania and Yugoslavia, cotton in Egypt and the Sudan, oil in Roumania, Iran and Iraq, as well as the potentially rich markets in the Near and Middle East. The local rivalries of those regions, as well as the jealousies of the other big nations, make gradual political domination feasible—at least theoretically. Certainly the history of the last few years seems to give ample evidence of this: German penetration in Austria and Hungary, continual wooing of Yugoslavia, support of the Fascist Iron Guard Party in Roumania, complete economic control of Bulgaria, increasing influence in Greece, repeated attempts to secure a dominant position in the industrial development of Turkey, are highly significant. Significant also are German attempts to build up a system of communications through South-Eastern Europe by the construction of modern roads. The visits of Dr. Schacht to these areas acquired importance in the light of the above considerations, because the immediate and even

potential economic results seemed an insufficient excuse for them. Lately this policy has been developed in a more frankly political manner: Dr. Schacht's visit to Iran and German activity in Afghanistan cannot possibly be explained by their economic value, which is negligible. They can, however, be explained as steps in the encirclement of Russia, which is becoming rapidly more powerful, and which, through her long-standing friendship with Turkey (as shown by the part Russia plays in Turkish industrialisation and also by the course of the recent Dardanelles negotiations) may, in German opinion, be jeopardising the chance of a Mittel-Europa under the dominance of Germany. The latter would give Germany all she needs for the time being: ample supplies of essential raw materials, strategic position to threaten possible rivals, and, in the last resort, man power in the shape of possible allies. The use of such a situation as a jumping-off place for creating an empire must not be considered fantastic, because such a plan would be in keeping with the whole psychology of National Socialism, which is based on the dynamic idea of the expansion of a virile "race," and on the need to challenge the Ottawa conception of empire as a closed politico-economic corporation. In this connection, the repercussions of recent legislation by the South African Government regarding the South-West African mandate are instructive. So far, Germany has shown much skill in formulating and implementing the major lines of her plans. It is rather in the detailed working out that she has made errors of judgment, thereby antagonising important nations and putting them on the *qui vive* about Germany's ultimate intentions.

The key to the penetration of the south-east is the Danube Valley, and hence the struggle for the effective domination of Austria. With Italy hostile towards the *Anschluss*, Czechoslovakia is the alternative key, and therefore the future of German and perhaps of European policy still depends on Central European events. There are signs, however, that delays and alarms have made it less easy for Germany to develop this policy smoothly, partly because Italy has similar ambitions, partly because Great Britain is becoming awake to the danger, and partly because world economic progress during the last two years is making the smaller nations increasingly reluctant to be dragooned. But the same economic progress, as we have shown in earlier chapters, is making it more difficult for Germany to avoid resorting to force in maintaining economic control. German participation in the Spanish War may be largely regarded in that light. Unable to obtain Swedish iron ore, because she cannot pay for it, Germany has obtained from General Franco ore which usually finds a market in Great Britain. He can also supply Germany with pyrites (the main source of sulphur) and some copper, while a struggle is now in progress for the world's richest mercury mines. Inasmuch as Great Britain to a certain extent and France very greatly, depend on these Spanish raw materials, the strategic importance of the control of Spain by Germany and Italy, if only as a bargaining counter, cannot be over-estimated.

Italian Aspirations

Italian policy is in some respects similar, though it has other aims also and was formerly isolationist, so far as Mussolini himself was concerned. There has been relatively little commercial penetration by Italy except in the Danubian countries and Egypt, and by the development of shipping services. The Fascist system has an avowedly political basis, and the conception of empire built up by "a virile, not only military but warlike

nation" requires acquisition of territories and strategical positions either by force of arms or by threats against possible rivals, before formulating a plan for their economic development. Evidence is now available to show fairly conclusively that control of the Eastern Mediterranean in order to establish an empire there has for some time been the Italian plan. The earlier moves against Greece, the fortification of the Dodecanese (which has always been regarded by Turkey as a direct threat), the control of Albania, are all stages in this plan, as also was the propaganda in Egypt, Palestine, the Red Sea and the Persian Gulf, which had been going on for two or three years leading up to the Abyssinian War.

The Possible Clash of German and Italian Ambitions

Whereas Germany has never openly advocated war as a method of national economic expansion, and in fact has publicly deprecated it, Mussolini has not ceased for some years now to preach war as an instrument of national policy. It is true that partly for this reason he has been singularly unsuccessful in his economic strategy. The Abyssinian War was only won because of the weakness of will and the fears of the major League Powers, and it demonstrated clearly that Italy was in fact helpless in face of a *real* economic siege. This lesson was very much taken to heart by those military countries which could be exposed to economic blockade—i.e. Italy, Germany and Japan—and they immediately intensified their preparations for self-sufficiency. Again the half-hearted action of the non-aggressive Powers served only to give an impetus to the economics of war. By the Abyssinian War, Italy has gained control over territory which will need years of pacification and development and of which the economic value is, to say the least, not proven. But Italy has now a strategic position on the Red Sea, threatening the Sudan and Egypt in the north, and Aden and British Central Africa in the south, and the route to India as well. She has also opened a source of excellent black troops. Italy may consider herself, therefore, as within measurable distance of challenging control of the Near and Middle East. Hence Italian economic aims are not dissimilar to Germany's, and if both countries vigorously pursue their objectives, their policies may sooner or later come into conflict.

But taking the short view, the events of the last twelve months made Italo-German collaboration inevitable, if only to exploit a situation when Britain was militarily unprepared and the smaller countries tended to be demoralised. But growing dangers have stiffened the British and French attitudes, and have made the smaller countries more determined, jointly and severally, to protect their political entity and growing economic independence. The Spanish Civil War has served to accelerate this movement. Thus the Rome-Berlin axis, which is increasingly weak economically, must depend more and more on political factors—which, at root, may not be complementary.

Changes in the Balance of Forces in the Far East

The position in the Far East has developed along not dissimilar lines. Japan, having acquired Manchuria, found it less attractive economically than anticipated. It has proved difficult to control, and she has been obliged to extend military commitments into North China. It must be noted that the initial pressure to acquire territory was largely economic.

But continuous aggression, without any economic or political benefits for the population, has now served to consolidate China as nothing else could have done, so that the position, from Japan's point of view, is definitely less attractive than in 1932. In addition, Russia is now immensely stronger than five years ago, and has extended and strengthened political and economic influence in Inner Mongolia and Chinese Turkestan. Inasmuch as Russia is incomparably stronger than Japan in economic resources, and is becoming much less interested in international Communism as such, Russian influence must be increasingly felt in the future. Thus Japan may be reduced to a scale of economic activity no greater than that which she might have achieved without any military adventure at all, while at the same time the expenditure and the liabilities of this adventure have already been incurred. But the pressure of expanding population in Japan is still present, and the question arises therefore whether an adventure into the Philippines or the Dutch East Indies may not at some stage be contemplated. The three Powers which would be concerned in such an event, however, have now been warned, and their naval and air programmes must make Japan pause. Any reliance she may have placed on the German pact, Japan may have already begun to regret.

The strategic position of the three Powers is, however, complicated by the remoteness of the territories concerned, and it seems probable that the practical problem of protecting their interests can only be met by co-operation in both the political and the economic sphere covering the whole Pacific area.

The Rehabilitation of China

One of the immediate results of the aggressive policy of Japan and the penetration by Russia of Mongolia and Chinese Turkestan, has been the remarkable consolidation of China—a phenomenon which nothing else could have brought about. In spite of foreign wars, internal strife and local revolutions, Chinese politics, by some mysterious dispensation, preserve a form of continuity, while trade and finance not only continue, but have made considerable strides during the last few years. While the idea that China is a limitless market awaiting exploitation must be considered as illusory, undoubted industrial and commercial progress is being made, and significantly, under Chinese auspices, even though help is, in fact, being obtained from abroad. It is probable that financial defaults and political upheavals will continue to occur, but a national industry of considerable and increasing importance is growing up, on the basis of much natural wealth. Chinese development must become a factor in world politico-economic affairs, inasmuch as China has a knack of turning to her own use foreign interference (as in the case of the currency reforms arising out of the Roosevelt silver policy) and is increasingly unwilling to accept foreign control, while welcoming foreign collaboration.

The Consequences of Russian Development

The re-orientation of Russian politico-economic development over the past few years has been radical and reflects the new nationalist phase of Bolshevism. Instead of flooding world markets, Russia now sells high-grade or essential goods at higher prices in selected markets, and is establishing herself as a developed Big Power which wishes to assist

neighbouring semi-developed countries such as Turkey, Iran, Mongolia, Lithuania. Inasmuch as the Russian balance of payments is now positive, and gold production is rapidly increasing, Russia might well soon become a creditor nation, with all the politico-economic influence which this entails. Russian interests, therefore, are obviously long-term ones, and Russia will do her utmost to avoid a war for the time being, thus becoming a factor of stability. But Russia is intent on creating an extending circle of influence, and it must not be forgotten that much territory was lost after the War. Hence Russia may, when once internal reorganisation is more advanced, be driven, like other totalitarian countries, into a dynamic phase of political temper. In any case, the unified political and economic control which the Soviet system gives, and the great potential wealth of the country, are weapons not possessed to anything like the same extent by any other nation.

The rapid increase of gold production amounting to about £50 million in 1936, has given Russia a new politico-economic weapon, the power of which is, at present, incalculable, though, in so far as the present gold output is derived from alluvial sources, it may not be maintained. Inasmuch as the United States is practically the only free buying market, the big Russian sales there during the past few months have caused such pressure on the dollar that serious repercussions throughout the world have taken place. It is obvious that understanding and co-operation between the main gold-producing countries and the world money markets are imperative if the world is to avoid sudden changes in gold policy and price with their cataclysmic effects on commodity prices and economic activity. The immediate causes of the Russian gold sales were probably the need to establish a "war chest" in the United States and, by acquiring sterling against dollars, to provide a "hedge" in London. But experience is being acquired by Russia of the power of this gold supply—which Russia will undoubtedly use when occasion arises.

French Policy in Europe and the Mediterranean

The position of France in the international field is increasingly difficult, although the French have always clearly formulated the close connection between politics and economics and regulated policy accordingly. This, however, was done from the purely financial and military angles—in other words, by advancing money and exploiting the borrower to help in emergencies. France did not realise that money, once lent, is liable to be lost as a lien, unless the resulting economic arrangements are of lasting benefit to the borrower concerned. However, on any short-term view money does purchase services. This has been strikingly demonstrated again by the recent credits to Poland, which are nothing further than a "refresher" for the Franco-Polish military alliance, even though they are being used by Poland to carry out a plan of national development which has existed on paper for some time. In so far as this is so, the French loan must be regarded as being of general benefit to economic progress. In the Western Mediterranean, however, France has carried out and is continuing to do so successfully, a comprehensive politico-economic colonial policy. For this the ability of French colonial administrators is responsible, and in particular the genius of the late Marshal Lyautey. In Algeria, Tunis and Morocco, France has built up a system of trade services and development which can provide many requisites both in peace time and in war, and at the same time does confer

great benefits on the local population. Fortunately, these areas are in a sense complementary to France, and this facilitates the French policy of making all territories under French control or protection gradually feel that they are part of a Greater France. This Greater France may include widely divergent creeds and civilisations, but it is founded upon the ideal of securing the mutual prosperity of all.

France relies on tranquillity, both external and internal, over a wide area in the Mediterranean. Imperialistic penetration by other countries in North Africa or Spain, therefore, is of vital significance to French interests. Russia, on the other hand, being far away, is little feared politically by France, whereas a Franco-Soviet pact might well prove useful in an emergency. Much of French industry depends on supplies from countries with which France has either political agreements or which she wishes to keep out of entanglements—e.g. copper from Yugoslavia, oil from Roumania, pyrites and iron ore from Spain and Africa. The maintenance of political balance of power and freedom of communications therefore are vital to French economic strength as a factor in world affairs: this France realises with great clearness, even if her actions at times seem somewhat short-sighted.

The Influence of the United States in World Affairs

As the United States is a dominant factor in world affairs the latest development there may well prove decisive in the event of a crisis. We must admit at the outset the very great difficulty of assessing the way in which the United States power will be brought to bear, but it is clear that the American Administration has a genuine and sustained desire to play a worthy part, even if internal politics inevitably cause actions to fall short of intentions. It is very little short of disastrous that opportunities of closer collaboration should be allowed to slip by, because sympathetic understanding strengthens the hands of those who feel that the United States has a great part to play, while a rebuff serves to strengthen the already powerful movement in favour of blind isolation. This argument has been reinforced by the sudden realisation that the United States could, by a modification of her gold policy, profoundly affect primary producers, wreck a country like South Africa, and alter the whole trend of world economics. The United States is unlikely to use this power unless all hopes of progress by international agreement are disappointed. But the threat is there, nevertheless.

The United States is the only nation which has honestly attempted to analyse the theory of world politics and to define its own attitude. Unfortunately, internal differences of opinion are so wide that at present American policy tends in effect to be mainly negative, except in the affairs of the American Continent as a whole. Furthermore, the United States has ignored certain economic facts and is thus forced into a dilemma, which is in a sense the same that other nations have to face. Repeated assertions of the evil of war and absolute refusal to engage in it, have now led to the adoption of an attitude of absolute neutrality, in which there is no distinction between the aggressor and the victim, and trade in time of war is only to be done on a "cash and carry" principle. The Administration has, it is true, managed to obtain some power to discriminate, but it is more than probable that it could have gone much further if American opinion had not been antagonised by recent events in the Old World. During the Abyssinian War, a brave attempt was made by President Roosevelt to combine practical trade policy with political idealism: his move to

discourage excessive trade with belligerents and to withdraw protection from the trader dealing with them was in effect a practical step to help the League. It meant that the United States renounced American neutral rights and would not object to ships being stopped or cargoes diverted. Inasmuch as the League Powers controlled the sea, it was tantamount to co-operation with them. This great opportunity of taking a step towards finding and defining a possible practical application of the general American attitude was missed—thus once again, as in the case of Manchuria, pushing the United States further into isolation and making the position more obscure. The United States now refuses in theory to have anything whatever to do with war, but yet is apparently not prepared to take any steps to prevent it or to minimise it. If, therefore, in the event of a war, a belligerent chooses to interfere with the United States' commerce, the United States must either renounce neutrality rights, thereby automatically assisting the side which dominates the sea, or interfere—thus destroying at one blow the whole elaborate fabric of absolute neutrality. It is likely, therefore, that relatively soon the United States will have to work out with greater precision the implications of being one of the dominating factors in a world ridden by politics. In the meantime the Administration has been active in building up a Pan-American politico-economic *entente*, which has much to recommend it, while Canada, too, has shown certain tendencies in sympathy with this idea. It remains to be seen if the close ties which Great Britain has with these countries may not serve to bring her, and with her the other Empire countries, into the same orbit. Economically such a group could assist the peace of the world, but for that the constituents would have to decide exactly how far they were prepared to go.

The Foundations of British Foreign Policy

Great Britain has been increasingly conscious of the importance of the Empire, and has therefore, in spite of adverse factors, deliberately fostered economic relations as the main means available of keeping some form of political coherence. Trade treaties and the London financial market are not the only factors—the development and maintenance of communications, problems of defence and the psychological appeal to the idea of a free Commonwealth of Nations are just as important. Unfortunately, in this policy British authorities appear to have neglected the need to ensure the peace in certain areas of the world which is vital on any long view for the Empire's safety, or to remove those economic grievances (real or imaginary) which so repeatedly lead to political tension. Is it, for instance, a solution of the problem to dismiss, on the one hand, the colonial question as irrelevant to the economic rehabilitation of "poor" countries, and, on the other, to refuse to consider any comprehensive plan of economic reconstruction which might involve a change in policy or an element of risk, or a sacrifice on the part of Great Britain, such as a modification of the M-F-N Clause, abandonment of bilateralism, and increased lending facilities? From the political side, is not the refusal to consider any modification in existing conceptions of sovereignty, when added to the indication that the maintenance of peace and justice in certain areas is of no particular concern to Great Britain, liable to create an unfortunate impression that British policy is henceforth to be framed on reactionary lines—on a determination to preserve the present situation and to abandon for the time being at least, any broader constructive effort? Neglect of these issues would seem to be dangerous because it encourages the use of force, the development of the

economics of war, and at the same time makes Great Britain more and more involved in the latter, to her own great disadvantage in view of the highly complex economic structure and vulnerability of the scattered territories and extensive communications of the British Commonwealth.

The Economics of War

In considering the economics of war, we must distinguish between their internal and external aspects as well as their general influence on the world. Externally they render essential the rigid control of foreign trade and credit, first to enable imports essential to the creation of a military machine to be obtained, and second, to eliminate gradually the need for such imports in the future, thereby reducing risks in time of war. At the same time, labour and industry are conscripted in order to build up a structure whose maximum efficiency can only be achieved in time of war. In this process normal economic relations with other nations and the normal development of national, social, and economic life are destroyed. Germany is a strikingly clear example of this process. There first came Dr. Schacht's various expedients, followed by the rapid implementation of the "guns before butter" policy, the progressive deterioration of foreign trade relations, and the final emergence of the Four Year Plan of self-sufficiency.

Similar processes are taking place in Italy, Japan and Russia, and are now spreading to smaller countries. But this process carries the elements of its own destruction. The deliberate progressive elimination of foreign trade as a natural medium of increasing prosperity only makes deeper the cleavage between "haves" and "have nots," and makes the position of the latter acutely difficult if not catastrophic in time of a world revival and shortage of goods. Those countries fully committed to the economics of war are obliged to secure at all costs certain vital supplies, and at the same time to take steps to prevent rivals from obtaining them. The Spanish War provides an excellent illustration of this.

The internal effects of these new economics are more difficult to elucidate. It is evident that a vast industry is being built up which is only partially productive in peace time and is not based on any rational ideas. At the same time, complete self-sufficiency cannot be achieved, so that a form of foreign trade must be maintained, but at an absolute minimum. It is a fallacy to argue that a nation "cannot afford a vast rearmament programme." As long as it maintains a balance of foreign payments sufficient for its essential imports, and the government has absolute control of the "man-hours" of its population, so as to be able to impose a process of "forced saving" upon the community, the question of costs does not arise in the financial sense. A limit is imposed only by the resistance of the community to an indefinite decline in the standard of life. The only sort of decision which has to be made on the basis of financial costs is whether it is cheaper to employ men in building battleships, naval bases and aeroplanes, in order to keep communications free, or to divert this effort to the building up of a "substitute" industry.

The Dangers of War Economy

But if on the short view such a system is possible, it has very great dangers. A rise in world prices can completely upset the foreign trade calculations, and exhaustion of foreign

credit reserves makes any actual assistance in an emergency impossible. There are at present unmistakable signs that such an emergency is in fact threatening not only Germany, but also Italy, and to a smaller extent Japan. But though perhaps slow in maturing, the really driving feature of the economics of war is the internal situation: this can be forced to an earlier crisis by external circumstances, but essentially it depends on the extent to which the man-hours of the population can be diverted to unproductive efforts at the expense of the nation's standard of life. In the end, the resources for investment in rearmament can be obtained only at the expense of normal productive activities and investment, and hence by depressing the standard of living and curtailing liberty. The lengths to which this process can be pushed, obviously varies with each nation. It is almost impossible to estimate the total real expenditure of Germany and Italy on armaments—but industry, agriculture and the whole population are known to have been mobilised primarily for that end. Russia spends one-third of her total Budget, which, of course, covers all industry—and inasmuch as her national income may be taken as equal to the estimated retail turnover (181,000 million roubles), about 18 per cent of the national income appears to be spent for military purposes. When we consider that the British rearmament programme represents only 6½ per cent of the national income, that there is as yet no complete mobilisation of industry and population, and yet how profound an effect it has on our economic structure, it is clear how close to the danger limit—if not beyond it—the totalitarian countries have gone. The economics of war introduce a new phase in world development, and their failure would probably mean the total collapse of the regimes advocating them and heavy damage to the peculiar economic and social structures of the nations concerned. The extent of such effects cannot be calculated, but the knowledge that they cannot be risked must be dominant in the minds of those responsible for such regimes. We cannot know, therefore, whether, to save themselves, any of these nations will resort to war as an outlet: certainly there have been signs to that effect, and it would be imprudent for the other nations to ignore them. The impact of this development on Great Britain is both political and economic. Politically, Britain and the Empire are drawing closer together in order to build up a common system of defence. This is, perhaps, inevitable, but it will profoundly affect such questions as the position of Mandates and defer for a long time, if not for ever, any question of a modification in the sovereignty of territories or international control. Opinion is hardening throughout the Empire, so that any mention of concessions might have a disruptive psychological effect, and will therefore probably not be made, even though it might be advisable and just, subject to adequate political safeguards.

The economics of war are forcing us to use our prosperity for the wrong ends, and to mortgage, if not jeopardise, our future. Even if there is no choice for the moment, should we not take care to ascertain whether the principles underlying present economic policy are calculated to remove friction in the future? The indications are that there is too tardy an appreciation of the significance of events, and overmuch hesitation in following out the implications in practice, even though certain principles are admitted as desirable. These events during the past year have become more pressing. The world has too recently suffered the horrors of prolonged deflation to be able to face it again. But if competitive rearmament is allowed to proceed unchecked and economic co-operation is not re-established, a swift inflation will occur, followed inevitably by another collapse. The world's present socio-political structure can hardly survive such another shock.

Opportunities for Fresh Reconstruction.

But in the meantime, the revival of activity has created conditions which have enabled many nations not only to assert their independence—because their resources are no longer absorbed by crisis measures—but also to make definite moves of a constructive nature. In this they have not only been actuated by a feeling that such economic measures are right and the time opportune, but also by the pressing fear of powerful political neighbours and the realisation that only close co-operation in the solution of economic problems can save them. To this extent, it is possible to hope that the factors making for the spread of the economics of war are weakening and that the world is entering upon a fourth politico-economic phase—a phase of renewed reconstruction and economic and political appeasement.

The recent move of the Oslo Powers must be regarded in this light—with, perhaps, greater emphasis on the need to consolidate economic recovery. Even more significant—and indicative of the growing importance of the security incentive—is the more recent move towards the economic consolidation of the Danube Basin—a consolidation which is overriding old political antagonisms and which should materially assist in removing them. Progress is being made along a number of lines, and extremely significant is the appeal recently voiced in Hungary for the preferential treatment of certain categories of each other's goods by the Danubian countries—reference being made to the example of the British Empire.

The above symptoms are healthy in that they indicate the determination of the smaller nations to take the lead in rebuilding the world economy, instead of waiting upon and becoming attached to this or that Great Power, and in spite of a simultaneous movement in favour of closer regional economic groups. This movement is beneficent in that it may simplify and strengthen the world's economic structure by breaking down numerous barriers, adjusting currencies, and removing points of friction which are not all important in themselves, but capable of forming nuclei of discontent round which trouble may start. By this means, increasing areas of prosperity could be formed, the constituents of which would have every interest in eliminating the economics of war and in preserving political peace. This development would more than counterbalance the increasing withdrawal of the nations which are wedded to the economics of war from participation in normal economic intercourse. Such nations would soon find themselves surrounded with areas of growing prosperity and tranquillity. This tendency might, in spite of propaganda and a close censorship, and barring a sudden cataclysm, exercise a new and increasing influence for peace on their own populations.

The Need for a Progressive British Policy

But however energetic the efforts of the smaller nations, real and lasting progress cannot be achieved without, first, the active support of the chief trading Powers and then, their resumption of the lead. But, in examining the possibility of this, we must be prepared to ask ourselves certain pertinent questions. The salient issue, for instance, of the co-operative movement among smaller nations is the desire for more particular economic

collaboration between those nations which are linked by geography or economics. Would it be possible for Great Britain once again to refuse recognition to this movement, in face of the much wider and firmer demand for it, seeing that it has also the sympathetic support of France and the United States and significantly, invokes the British Empire as an example? And what would be the political repercussions of such a refusal? Would, for instance, the other nations, with a growing sense of their responsibilities, accept the somewhat arbitrary allocation by the British Government of blame for the existence of restrictions to world trade? Can the argument that the "open door" in the Colonies would be harmful to colonial fiscal autonomy and would dislocate trade, be safely sustained in face of the strong impression that political power is being used to our own economic advantage?—and is it worth it? Above all, is not the caution now largely out of place which arises from suspicion that behind any new approach by this or that nation may lurk a sinister scheme to obtain an unfair advantage? May not all such arguments be too late, because events are demanding a more radical solution; because nations are genuinely anxious for a solution and no longer prepared to argue about formulæ? If so, the risks involved by a new determination to grapple with the growth of menacing forces are much less than those inherent in obstinate devotion to obsolete methods.

Anglo-American Co-operation

The need for clear and rapid thinking, and above all for the accurate perception and formulation of the inter-action of economics and politics, is now imperative for the bigger nations, but in particular for Great Britain and the United States. Whatever (and perhaps because of) misunderstandings in the past, similarity of ideals and the exigencies of the present situation inevitably compel these two countries to draw closer together. It is no secret that the United States neutrality legislation has caused official and unofficial moves from British interests to see if security of supplies in case of emergency could be assured. At the same time, President Roosevelt's often expressed desire to promote peace and co-operation—together with moves in that direction—cannot be left in mid-air. If the United States Administration is faced with difficulties arising from internal political factors, in following out all the lines of development which it has tentatively put forward, then even more should Britain appreciate that whatever may be the differences of practice or formula, an overriding factor exists—that the two premier economic Powers, to whom lasting peace is essential, cannot afford to be at cross-purposes or even not to work in concert. If the nations now bent upon war economy are to be gradually wooed from that course, then world prosperity and progress can only be achieved by welding the remainder into an economic whole. This requires the joint efforts of Britain and the United States. There are signs that the Dominions, which perhaps can appreciate the American outlook better than Whitehall and are apprehensive of delays, are realising the urgency. The repeated contacts of Dominion statesmen on the one hand with the American Administration, and on the other hand with each other and London, may be the prelude to a more comprehensive forward policy, with which the French Government is wholeheartedly in sympathy and of which the Currency Agreement of September 1936 gave the first hint.

This agreement, followed as it was by the efforts of the smaller countries of North-Western Europe and the Danubian area, when viewed in conjunction with the expressed

wishes of the United States and France for greater international co-operation, holds out a promise of real economic reconstruction and political appeasement. In the light of the above considerations, the mission undertaken by M. Van Zeeland, in his search for constructive opportunities, contains promise of really fruitful results—provided that it is not regarded as a means of postponing decisions and of avoiding facing the issues by those who should do so. At present there is little indication of the methods which are to be employed, or the range of contacts to be made—because official pronouncements do not go beyond well-meaning generalisations, on the one hand, and the reiteration of a somewhat negative goodwill, on the other. This leaves the mass of the political and business community largely in the dark and may lead to disaster, because if real revival of economic activity is to be achieved, full consultations and co-operations with those engaged in such activity must be ensured at the outset. Evidence is ample and rapidly increasing—from the utterances of individuals and resolutions of corporate bodies—that many traders anxious to trade are prepared to examine critically principles and methods and are no longer content with pious hopes. They must be given every encouragement—and we may well ask ourselves whether enquiries and missions confined to the officials of governments will achieve the desired results. Uninformative explanations in Parliament, make it difficult, if not impossible, in the absence of precise data, for the issues to be thoroughly debated. Yet one of the outstanding advantages of democratic government is that it can enlist the criticism and co-operation of all the varied elements in a country and in times like this such an advantage should be exploited. Whatever the merits claimed for the totalitarian form of government, it has contributed nothing so far to the task of general world economic reconstruction.

The primary necessity is that invaluable time should not be lost, because world economic reconstruction can only take place during rising prosperity, and there are forces now at work which might cause a collapse, the political consequences of which would be such as to dislocate, perhaps beyond repair, the process of reconstruction thereafter.

APPENDICES

NOTE.—*The statistics used in these Appendices have, except where otherwise stated, been compiled from official sources, viz.: the trade returns of the United Kingdom, the British Dominions and foreign countries, and the publications of the Imperial Economic Committee.*

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APPENDIX I—STATISTICS

TABLE 1.—WORLD TRADE

(League of Nations : Review of World Trade)

	1929	1930	1931	1932	1933	1934	1935	1936
Value in mn. gold $.	68,622	55,555	39,704	26,857	24,175	23,288	23,550	27,200*
Value in £mn. .	14,101	11,416	8,755	7,660	7,295	7,748	8,095	—
% movement, gold	100	81.0	57.9	39.1	35.2	33.9	34.8	37.8
% movement, £ .	100	81.0	62.1	54.3	51.7	54.9	57.8	—
Quantum .	100	93.0	85.5	74.5	75.5	78.5	82.3	85.6
Price, gold	100	87.0	67.5	52.5	46.5	43.0	42.0	44.0
Price, Sterling .	100	87.0	73.0	73.0	69.0	70.0	71.0	—

* Preliminary estimate.

TABLE 2.—DISTRIBUTION OF WORLD TRADE BY COMMODITY GROUPS

(League of Nations: Review of World Trade)

	1929	1932	1933	1934	1935
By Gold Value—					
Foodstuffs	25.0	30.0	27.5	25.5	25.0
Raw Materials and Semis .	35.5	32.5	35.5	36.5	37.5
Manufactured Articles .	39.5	37.5	37.0	38.0	37.5
	100.0	100.0	100.0	100.0	100.0
% Movement by Gold Value—					
Foodstuffs	100	47.0	38.5	34.5	34.5
Raw Materials and Semis.	100	36.0	35.3	35.0	36.5
Manufactured Articles .	100	37.0	33.0	32.5	33.0
	100	39.1	35.2	33.9	34.8
Price Movement, Gold—					
Foodstuffs	100	52.0	45.5	41.0	40.0
Raw Materials and Semis .	100	44.0	40.5	39.0	39.0
Manufactured Articles .	100	64.0	55.5	49.5	48.0
	100	52.5	46.5	43.0	42.0
Quantum—					
Foodstuffs	100	90.5	84.5	84.0	86.0
Raw Materials and Semis .	100	82.0	87.5	89.5	93.5
Manufactured Articles .	100	58.0	59.5	65.5	68.5
	100	74.5	75.5	78.5	82.3

Table 3.—Trade in Capital Goods

(League of Nations: Review of World Trade)

Based on Trade of 24 countries accounting for 73 per cent of Total World Trade

Percentage Movement of Gold Value			
	1932	1934	1935
Capital Goods . .	100	101.9	107.2
Other Goods . .	100	81.1	81.2
Total . .	100	85.1	86.2
Percentage Share in Total Trade			
Capital Goods . .	19.2	23.0	23.9
Other Goods . .	80.8	77.0	76.1
Total . .	100.0	100.0	100.0

Table 4.—Germany's Trade Balance with Certain Groups

+ surplus of exports. — surplus of imports.
(million Rm.)

	Average 1927–29	1932	1933	1934	1935
Clearing Countries:					
Europe	+1,450.2	+1,394.2	+1,226.4	+452.3	+398.9
Overseas . . .	—664.0	—193.4	—79.1	—141.8	—160.6
Great Britain . . .	+315.5	+187.5	+167.2	+177.2	+118.7
Other Countries:					
Europe	+35.1	+164.2	+152.2	+91.7	+86.6
Overseas . . .	—2,330.2	—849.4	—664.2	—761.4	—307.7

TABLE 5.—DISTRIBUTION OF GERMAN FOREIGN TRADE

	IMPORTS					EXPORTS				
	Average 1927–29	1932	1933	1934	1935	Average 1927–29	1932	1933	1934	1935
Percentage Movement 1927–29=100										
Clearing Countries:										
Europe	100	35.8	31.6	35.8	36.7	100	47.9	42.5	34.9	34.8
Overseas	100	28.0	23.3	27.9	36.3	100	27.1	33.9	34.0	47.5
TOTAL	100	33.9	30.0	34.2	36.6	100	45.9	41.7	34.8	35.9
Great Britain	100	28.5	26.3	22.7	28.2	100	36.6	33.2	31.4	30.7
Other Countries:										
Europe	100	32.3	30.3	33.4	25.5	100	58.1	55.5	46.9	38.6
Overseas	100	33.2	28.4	28.4	22.4	100	37.0	34.2	30.3	35.9
TOTAL	100	33.1	28.6	28.9	22.7	100	41.2	38.1	33.4	36.4
All Countries	100	33.2	29.1	31.2	30.1	100	43.7	39.9	34.1	35.5
Percentage Distribution										
Clearing Countries:										
Europe	40.8	43.3	44.3	46.9	49.6	58.7	64.2	62.5	60.0	57.4
Overseas	10.1	8.5	8.1	9.0	12.2	6.0	3.7	5.1	5.9	8.0
TOTAL	50.9	51.9	52.4	55.9	61.8	64.7	67.9	67.6	65.9	65.4
Great Britain	6.6	5.7	6.0	4.8	6.2	10.2	8.5	8.5	9.4	8.8
Non-clearing Countries:										
Europe	4.1	4.0	4.2	4.4	3.4	4.9	6.6	6.7	6.8	5.4
Overseas	38.4	38.4	37.4	35.0	28.5	20.2	17.0	17.2	17.9	20.4
TOTAL	42.5	42.4	41.6	39.4	31.9	25.1	23.6	23.9	24.7	25.8
All Countries	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

TABLE 6.—TRADE OF THE THREE PRINCIPAL EMPIRES

(mn. Gold $)

	1929	1932	1934	1935
(a) BRITISH EMPIRE TRADE				
Total, British Empire	19,156	7,386	6,792	7,070
Total, less United Kingdom	10,200	3,831	3,559	3,789
% Movement Total	100	38.6	35.5	36.9
Total, less United Kingdom	100	37.6	34.9	37.1
Share of World Trade	27.9	27.5	29.2	30.0
(b) FRENCH EMPIRE TRADE				
Total	5,513	2,739	2,298	2,079
Total, less France	1,267	794	693	651
% Movement Total	100	49.7	41.7	37.7
Total, less France	100	62.7	54.7	51.4
Share of World Trade	8.0	10.2	9.9	8.8
(c) NETHERLANDS EMPIRE TRADE				
Total	3,212	1,375	1,147	1,078
Total, less Netherlands	1,306	510	444	431
% Movement Total	100	42.8	35.7	33.6
Total, less Netherlands	100	39.1	34.0	33.0
Share of World Trade	4.7	5.1	4.9	4.6
(d) IMPERIAL TRADE COMPARED WITH WORLD TRADE				
British Empire	27.9	27.5	29.2	30.0
French Empire	8.0	10.2	9.9	8.8
Netherlands Empire	4.7	5.1	4.9	4.6
Total	40.6	42.8	44.0	43.4
Rest of World:				
U.S.A.	13.8	10.8	9.6	10.8
Other Countries	45.6	46.4	46.4	45.8
Total	59.4	57.2	56.0	56.6
GRAND TOTAL	100.0	100.0	100.0	100.0

TABLE 7.—BRITISH EMPIRE TRADE

(£ millions)

	1929*	1931	1932	1933	1934	1935
Trade between British Countries and Foreign Countries:						
Imports	1,414	932	717	679	763	798
Exports	924	468	407	427	452	471
Re-Exports.	123	94	84	77	84	91
TOTAL TRADE . . .	2,461	1,494	1,208	1,183	1,299	1,361
Trade between United Kingdom and other British Countries:						
Imports†	369	250	249	250	273	287
Exports	325	171	166	163	186	204
Re-Exports.	23	16	12	10	11	11
Trade between British Countries other than United Kingdom:						
Imports	134	80	70	71	79	91
TOTAL INTER-IMPERIAL TRADE .	851	517	497	494	549	593
GRAND TOTAL	3,312	2,011	1,705	1,677	1,848	1,953
Percentage Proportion of Grand Total represented by:						
Trade with Foreign Countries .	74.3	74.3	70.9	70.5	70.3	69.6
Inter-Imperial Trade . . .	25.7	25.7	29.1	29.5	29.7	30.4

* Trade figures are not available for Hong Kong in 1929, so that the trade of Hong Kong with foreign countries is necessarily excluded. The inclusion of Hong Kong from 1931 onwards increases the proportion of Empire trade with foreign countries and decreases the proportion of inter-imperial trade by 0.6 per cent in 1931, by 0.9 per cent in 1932, and by 0.7 per cent in 1933 and 1934.

† Includes imports of diamonds from South Africa and the Gold Coast.

TABLE 8.—DISTRIBUTION OF THE OVERSEAS TRADE OF THE UNITED KINGDOM

	1929	1931	1932	1933	1934	1935	1936
IMPORTS							
European Countries:							
£000 . . .	465,583	367,397	251,165	241,014	255,860	264,432	290,275
% of Total . .	38.2	42.7	36.0	35.7	35.0	35.0	34.2
1929=100 . .	100.0	79.0	55.0	53.0	56.0	57.0	62.0
Foreign Countries outside Europe:							
£000 . . .	396,340	246,439	199,382	184,868	204,271	207,051	226,081
% of Total . .	32.4	28.6	28.5	27.4	27.9	27.4	26.6
1929=100 . .	100.0	62.3	50.0	47.0	51.5	52.0	57.0
British Countries:							
£000 . . .	358,842	247,416	248,137	249,137	271,285	284,558	332,580
% of Total . .	29.4	28.7	35.5	36.9	37.1	37.6	39.2
1929=100 . .	100.0	69.0	69.0	69.5	75.5	79.5	93.0
TOTAL:							
£000 . . .	1,220,765	861,252	698,684	675,019	731,416	756,041	848,936
1929=100 . .	100.0	70.6	57.25	55.25	59.9	62.0	69.4
EXPORTS							
European Countries:							
£000 . . .	233,305	133,530	133,098	130,322	135,925	141,342	137,572
% of Total . .	32.0	34.2	36.5	35.4	34.3	33.2	31.2
1929=100 . .	100.0	57.3	57.0	56.0	58.5	60.5	59.0
Foreign Countries outside Europe:							
£000 . . .	171,592	86,419	66,420	74,068	74,487	80,126	86,220
% of Total . .	23.5	22.1	18.2	20.2	18.8	18.8	19.6
1929=100 . .	100.0	50.5	38.5	43.0	43.5	47.5	50.2
British Countries:							
£000 . . .	324,451	170,673	165,512	163,517	185,573	204,345	216,927
% of Total . .	44.5	43.7	45.3	44.4	46.9	48.0	49.2
1929=100 . .	100.0	52.5	51.0	50.5	57.0	63.0	69.0
TOTAL:							
£000 . . .	729,348	390,622	365,030	367,907	395,985	425,813	440,719
1929=100 . .	100.0	53.6	50.0	50.5	54.3	58.5	60.5

TABLE 9.—INDEX NUMBERS (VOLUME) OF BRITISH FOOD IMPORTS, 1925–35

(1927–29 = 100)

Year	Total Food Imports			Meat			Dairy Products			Wheat and Flour			Eggs			Vegetables			Fruit		
	Tot.	Emp.	For.	Tot.	Emp.	For.	Tot.	Emp.	For.	Tot.	Emp.	For.	Tot.	Emp.	For.	Tot.	Emp.	For.	Tot.	Emp.	For.
1925	95	110	85	96	114	88	97	114	81	90	108	73	87	90	86	113	92	119	92	104	86
1926	96	103	91	96	109	91	96	99	93	91	100	83	90	90	90	94	99	92	130	124	132
1927	99	99	99	101	98	102	96	94	98	103	109	98	96	97	96	88	86	89	105	80	115
1928	100	105	97	101	103	100	100	103	98	95	108	84	103	102	104	116	116	116	96	126	84
1929	101	96	104	98	99	98	104	103	104	102	84	119	101	102	100	96	98	96	99	94	101
1930	105	107	104	106	110	105	109	115	104	99	90	107	107	101	109	101	99	101	99	160	73
1931	117	117	116	117	117	117	123	135	112	110	106	114	104	106	104	156	102	172	120	133	115
1932	111	123	99	112	109	114	127	147	109	96	142	56	84	104	80	142	106	154	118	164	99
1933	107	141	87	101	114	95	133	157	110	103	149	63	76	104	68	87	134	75	107	244	49
1934	104	137	84	94	123	81	142	171	114	95	116	76	81	100	77	81	123	70	88	196	43
1935	103	137	82	92	130	73	137	170	107	92	111	75	84	83	85	88	131	77	111	205	71
1936	105	152	75	92	188	70	139	163	116	92	165	29	103	81	107	100	127	92	88	186	47

From "The Planning of Britain's Food Imports," by K. A. H. Murray and Ruth L. Cohen, of the Oxford University Agricultural Economics Research Institute, 1934, 3s. 6d., and Supplement, 1936.

Table 10.—(a) Imports of Cotton Piece Goods* into Ceylon during 1934, 1935 and 1936

As explained on page 75, this and the following table show the contrast between Crown Colonies under the quota (Ceylon and Malaya) and territory exempted from it by the Congo Basin treaties.

	1934		1935		1936	
	000 yards	000 rupees	000 yards	000 rupees	000 yards	000 rupees
Bleached:						
Total Imports . .	19,512	3,551	17,007	3,849	18,165	4,126
of which from:						
United Kingdom .	5,083	1,540	13,498	3,156	13,179	3,086
British Possessions .	636	121	1,846	275	2,495	345
Japan . . .	13,721	1,846	1,424	291	2,082	457
Dyed:						
Total Imports . .	35,223	6,610	24,892	6,687	30,249	7,544
of which from:						
United Kingdom .	2,286	864	6,991	2,356	8,221	2,380
British Possessions .	10,763	2,346	16,048	3,763	19,694	4,393
Japan . . .	21,605	3,278	1,413	397	2,058	618
Grey:						
Total Imports . .	5,055	759	2,884	595	2,565	489
of which from:						
United Kingdom .	676	182	1,170	299	820	186
British Possessions .	469	158	1,291	189	1,214	179
Japan . . .	3,564	440	158	37	262	50
U.S.A. . . .	293	74	265	70	269	73
Printed:						
Total Imports . .	17,874	3,097	10,353	2,740	15,346	4,617
of which from:						
United Kingdom .	3,634	1,187	6,786	2,043	9,314	2,704
British Possessions .	348	43	60	9	7	2
Japan . . .	13,812	1,845	3,473	671	5,946	1,255

* Excluding small quantities of muslin and other classes.

(b) Imports of Cotton Piece-Goods into Kenya and Uganda (000 yards)

	1934	1935	1936‡
Unbleached . .	18,690	23,649	22,742
Coloured . . .	12,385	11,558	12,135
Other* . . .	21,493	24,220	25,673
Total . . .	52,568	59,427	60,550
From Japan . .	44,855	53,063	54,086
From United Kingdom	4,958	4,841	3,770
From India . .	1,181	972	840
Other Countries† .	1,462	449	1,854

* Includes bleached, dyed, printed Khangas and other prints.
† Holland, U.S.A., China, Belgium, Italy and Germany in that order of quantities.
‡ Estimate based on 10 months' figures.

(c) Imports of Cotton Piece-Goods into Malaya during 1933, 1934 and 1935

	1933		1934		1935	
	1,000 yards	1,000 $	1,000 yards	1,000 $	1,000 yards	1,000 $
Grey, Unbleached:						
Total Imports . .	7,860	646	15,313	1,147	12,370	1,097
of which from:						
United Kingdom .	1,782	178	2,945	274	3,236	376
Russia . . .	377	22	945	62	173	14
China . . .	1,403	128	899	80	692	71
Japan . . .	4,017	282	10,313	704	6,871	480
White, Bleached:						
Total Imports . .	38,064	4,479	32,449	4,135	26,473	3,616
of which from:						
United Kingdom .	11,366	1,823	11,800	2,028	12,771	2,173
Netherlands . .	902	155	1,185	205	1,081	166
Japan . . .	22,495	2,128	18,602	1,750	11,318	1,042
Dyed in the Piece:						
Total Imports . .	44,282	5,774	52,190	6,396	35,727	4,763
of which from:						
United Kingdom .	7,606	1,718	7,300	1,644	6,279	1,488
British India . .	519	118	550	124	1,004	201
Hong Kong . .	1,234	152	1,045	147	298	58
Japan . . .	26,201	2,685	34,751	3,548	20,843	2,162
China . . .	8,270	1,024	8,206	861	6,445	652
Printed:						
Total Imports . .	54,782	5,335	37,656	4,456	21,444	2,976
of which from:						
United Kingdom .	4,679	1,144	5,873	1,278	7,565	1,635
Hong Kong . .	215	38	238	38	30	5
Russia . . .	2,708	210	734	59	739	50
Japan . . .	46,470	3,823	30,610	3,040	12,310	1,179
Woven Coloured Cottons:						
Total Imports . .	916	142	6,795	761	7,634	1,037
of which from:						
United Kingdom .	444	77	1,089	164	3,511	579
Japan . . .	283	35	4,963	470	2,416	213
China . . .	128	25	217	47	—	—
Grand Total Imports	145,902	16,376	144,404	16,894	103,643	13,483

Table 11.—Trade* of the U.S.A. with the British Empire

IMPORTS (million $)

Imported from	1913	Average 1927-31	1932	1933	1934	1935	1936
United Kingdom	295.6	276.3	74.6	111.2	115.3	155.3	200.4
Irish Free State .	—	3.0	0.3	0.5	0.7	0.6	1.0
Canada . .	120.6	427.3	174.1	185.1	231.7	286.4	375.9
British Malaya .	116.2†	189.7	34.8	59.9	105.5	131.6	168.0
India . .		118.4	33.2	43.8	55.1	62.0	70.3
Australia . .	15.4	26.4	4.6	7.7	8.5	14.7	22.9
New Zealand .		13.9	2.2	4.8	5.6	10.4	11.6
British S. Africa .	3.3	7.8	2.4	4.1	3.2	4.3	7.5
British E. Africa.	0.7‡	2.2	1.1	1.0	1.9	2.4	5.0
British W. Africa	0.4‡	21.8	8.9	9.3	9.1	13.9	18.0
British W. Indies	0.6‡	19.8	8.2	4.0	6.7	6.5	7.6
Total British .	564.8	1,106.6	344.4	431.4	543.3	688.1	888.2
Total All Countries .	1,813.0	3,565.4	1,322.8	1,449.2	1,655.1	2,047.5	2,419.2
British Trade as % of Total .	30.6	31.0	26.0	29.7	32.8	33.6	36.5

EXPORTS (million $)

Exported to	1913	Average 1927-31	1932	1933	1934	1935	1936
United Kingdom	597.1	733.9	288.3	311.7	382.8	433.4	439.6
Irish Free State .	—	11.8	4.5	4.1	7.2	7.3	7.4
Canada . .	415.4	751.1	241.4	210.5	302.4	323.2	384.0
British Malaya .	15.1†	10.9	2.5	2.4	4.2	4.5	5.6
India . .		50.8	24.9	19.9	27.4	31.4	26.8
Australia . .	52.7	110.8	26.8	26.3	43.2	57.1	58.5
New Zealand .		36.2	9.2	8.2	13.0	15.6	19.5
British S. Africa .	14.5	48.6	16.0	22.4	46.3	53.6	71.2
British E. Africa .	1.1‡	4.3	1.8	1.6	2.5	2.5	3.0
British W. Africa	3.3‡	16.8	3.8	3.4	3.8	5.4	7.5
British W. Indies	12.8‡	23.8	9.7	9.2	12.7	13.6	15.1
Total British .	1,112.0	1,787.0	627.9	619.7	845.5	947.6	1,037.9
Total All Countries .	2,465.9	4,300.5	1,611.0	1,675.0	2,132.8	2,282.9	2,453.5
British Trade as % of Total .	45.1	41.5	38.9	36.9	39.7	41.6	42.3

* General Trade. † British East Indies. ‡ Year ended June 30th, 1913.

Table 12.—Trade of France with the British Empire

IMPORTS (million Francs)

Imported from	Average 1909-13	Average 1927-31	1932	1933	1934	1935	1936
United Kingdom	995	5,290	2,457	1,894	1,643	1,579	1,798
India	356	2,167	790	792	523	611	780
Canada	12	700	542	370	259	334	321
Australia	259	1,870	489	752	638	658	615
Union of S. Africa				337	260		
British W. and E. Africa	39	898	598	200	—	228	274
Other British	—	104	42	241	...	...	...
Total British	1,661	11,029	4,918	4,586	3,323*	3,410*	3,788*
Total All Countries	7,627	51,915	29,808	28,431	23,097	20,974	25,398
British Trade as % of Total	21.8	21.2	16.5	16.1	15.9*	16.3*	14.9*

EXPORTS (million Francs)

Exported to	Average 1909-13	Average 1927-31	1932	1933	1934	1935	1936
United Kingdom	1,303	7,468	1,962	1,678	1,612	1,544	1,912
India	37	429	166	112	90	69	67
Canada	25	552	159	110	90	84	83
Australia	11	218	98	68	54	44	48
Union of S. Africa							
British W. and E. Africa	12	222	97	45	45	45	46
Other British	—	137	92	126	...	...	...
Total British	1,388	9,026	2,574	2,139	1,891*	1,854*	2,156*
Total All Countries	6,324	46,142	19,705	18,474	17,850	15,496	10,454
British Trade as % of Total	22.0	19.6	13.3	11.6	10.6*	12.0*	20.6*

* Excluding "Other British."

TABLE 13.—TRADE OF GERMANY WITH THE BRITISH EMPIRE

IMPORTS (million Reichsmarks)

Imported from	1913	Average 1927-31	1932	1933	1934	1935	1936
United Kingdom	876.0	762.9	258.5	238.4	205.7	256.2	263.7
Canada	64.0	259.2	64.9	79.2	62.8	13.3	18.8
Australia	296.0	260.8	92.4	103.7	105.4	35.1	42.7
New Zealand	10.1	22.7	16.5	25.0	35.7	4.4	6.7
South Africa*	70.0	131.5	50.1	52.4	60.6	68.4	59.2
West Africa	135.0	162.2	70.6	59.1	57.7	52.2	80.3
India	541.8	513.8	158.8	153.9	134.7	121.3	142.1
Other British	90.1	146.7	93.9	68.7	80.3	67.1	94.6
TOTAL BRITISH	2,083.0	2,259.8	805.7	780.4	742.9	618.0	708.1
TOTAL ALL COUNTRIES	10,770.0	11,769.3	4,666.5	4,203.6	4,451.0	4,158.7	4,217.9
British Trade as % of Total	19.3	19.2	17.3	18.6	16.7	14.9	16.8

EXPORTS (million Reichsmarks)

Exported to	1913	Average 1927-31	1932	1933	1934	1935	1936
United Kingdom	1,438.0	1,203.1	446.0	405.6	382.9	374.9	405.8
Canada	61.0	66.7	33.3	28.0	21.7	22.9	35.1
Australia	88.5	58.2	20.2	20.6	21.5	25.5	34.7
New Zealand	10.7	10.1	3.6	3.5	3.4	3.9	5.5
South Africa*	47.0	87.2	41.6	40.2	45.8	42.2	57.4
West Africa	17.0	24.9	6.3	6.4	4.5	10.1	16.1
India	150.7	205.2	109.3	86.8	94.4	111.3	121.6
Other British	146.7	69.6	35.5	44.1	55.6	56.2	66.4
TOTAL BRITISH	1,959.6	1,725.0	695.8	635.2	629.8	647.0	742.6
TOTAL ALL COUNTRIES	10,097.0	11,594.0	5,739.0	4,871.0	4,166.9	4,269.7	4,768.2
British Trade as % of Total	19.4	14.9	12.1	13.0	15.1	15.2	15.6

* Including Rhodesia.

Table 14.—Trade of Japan with the British Empire

IMPORTS (million Yen)

Imported from	1913	Average 1927-31	1932	1933	1934	1935	1936
United Kingdom	122.7	125.5	78.8	82.6	70.0	82.2	72.9
Canada . .	1.8	54.5	39.5	46.9	54.1	52.5	73.2
Straits Settlements	5.2	33.0	25.3	38.8	63.3	40.6	41.2
India and Ceylon	173.2	227.4	116.9	204.7	292.0	308.4	374.6
Australia . .	14.9	118.7	134.3	204.6	197.8	235.1	181.9
Hong Kong .	1.3	1.1	1.0	2.1	1.5	2.8	3.3
South Africa .	...	1.4	2.6	4.3	8.2	4.8	22.6
East Africa .	...	6.5	3.4	14.4	15.2	3.0	29.9
New Zealand .	...	0.7	1.5	2.4	11.6	6.4	22.0
British Malaya .	...	...	...	...	...	28.5	39.1
British Borneo .	...	3.8*	3.6	5.8	7.3	9.8	15.7
Total British .	319.1	572.6	406.9	606.6	721.0	774.1	876.4
Total All Countries .	834.6	1,874.7	1,431.5	1,917.2	2,282.6	2,472.2	2,763.7
British Trade as % of Total .	38.2	30.5	28.4	31.7	31.5	31.3	31.7

EXPORTS (million Yen)

Exported to	1913	Average 1927-31	1932	1933	1934	1935	1936
United Kingdom	32.9	60.2	60.5	87.8	109.3	119.5	147.3
Canada . .	5.1	22.5	8.6	6.6	8.7	8.0	14.6
Straits Settlements	10.1	26.2	25.5	46.1	63.3	48.5	58.8
India and Ceylon	29.9	150.3	192.5	205.2	258.0	287.5	272.9
Australia . .	8.6	36.3	36.9	51.4	64.5	74.8	68.8
Hong Kong .	33.6	55.2	18.0	23.4	33.5	32.8	41.5
South Africa .	0.5	14.0	16.4	26.7	29.5	25.1	30.6
East Africa .	...	10.3	15.8	23.2	22.3	49.7	58.4
New Zealand .	...	3.1	3.0	6.5	8.6	11.3	16.7
British Malaya .	...	...	...	...	...	2.4	2.4
British Borneo .	...	0.1*	0.1	0.1	0.3	0.5	0.5
Total British .	120.7	378.2	377.3	477.0	598.0	660.1	712.5
Total All Countries .	729.05	1,746.0	1,410.0	1,861.0	2,171.9	2,499.1	2,693.0
British Trade as % of Total .	16.5	21.5	26.8	25.7	27.6	26.7	26.6

* Average for 1930-31 as figures for previous years are not available.

Table 15.—Exports of Canada

(Years ended 31st March.)

A=Percentage Analysis of trade by commodities. B=Percentage Distribution by markets of trade in commodities.

Commodity and Markets	1928/29 A	1928/29 B	1929/30 A	1929/30 B	1930/31 A	1930/31 B	1931/32 A	1931/32 B	1933/34 A	1933/34 B	1934/35 A	1934/35 B	1935/36 A	1935/36 B	1936† A	1936† B
Wheat	30		19		22		20		20.5		20.1		19.4		22.6	
Wheat Flour	6		4		4		3		3.4		2.8		2.5		2.0	
Other Agricultural and Vegetable Products	18		9		10		12		11.6		11.4		9.8		8.2	
Total Agricultural and Vegetable Products	49		32		36		35		35.5		34.3		31.7		32.8	
United Kingdom		50		49		48		48		54.6		56.5		68.6		55.4
Rest of Empire		6		8		9		9		7.2		7.5		6.2		5.0
United States		9		13		9		5		10.9		19.1		18.4		21.0
Europe (†)		16		15		13		25		14.7		7.9		5.1		4.4
Japan		3		2		2		2		1.8		1.5		1.1		1.7
Other Countries		16		13		19		11		10.8		7.5		5.6		12.5
Animals and Animal Produce (including Fish and Dairy Produce)	12		12		10		12		13.0		13.2		13.2		12.2	
United Kingdom		30		31		37		46		59.6		62.8		54.2		54.7
Rest of Empire		11		8		9		7		6.4		6.7		6.7		4.8
United States		56		50		41		33		24.6		22.9		33.7		38.1
Other Countries		3		11		13		14		9.4		7.6		5.4		2.4
Wood Pulp and Paper	21		26		28		31		24.7		24.3		23.7		21.9	
United Kingdom		8		7		8		8		14.0		15.8		15.8		16.2
Rest of Empire		4		4		4		4		6.3		7.3		7.4		7.6
United States		82		82		82		80		71.3		67.5		69.0		68.1
Japan		3		3		3		4		2.8		3.9		2.3		2.6
Other Countries		3		4		3		4		5.6		5.5		5.5		4.5
Iron and Steel Products	6		7		5		3		4.6		6.2		6.8		5.0	
United Kingdom		11		9		10		25		19.6		24.6		21.3		21.9
Australia		13		8		4		2		15.1		16.6		20.2		18.3
South Africa		6		6		9		18		13.2		13.9		14.2		15.1
India		7		4		8		4		6.0		4.8		4.2		2.7
Rest of Empire		15		17		25		14		15.8		16.6		18.3		18.2
United States		13		14		16		20		16.3		6.7		10.3		12.5
Argentine		10		14		9		6		1.2		3.2		2.5		1.8
Other Countries		25		28		19		16		12.8		13.6		9.0		9.5
Non-ferrous Metals‡	8		14		12		12		14.1		14.3		17.1		20.9	
United Kingdom		15		10		18		25		43.8		49.0		45.8		37.6
Rest of Empire		4		4		5		4		3.6		3.9		2.2		1.8
United States		57		66		62		52		27.4		26.6		31.8		47.2
Holland and Germany		9		6		2		5		10.8		5.6		5.8		2.6
Japan		6		6		5		4		5.0		5.5		4.3		4.0
Other Countries		9		8		8		10		9.4		9.4		10.1		6.8
% of Exports§ Analysed	96		91		91		92		91.9		92.3		92.5		92.8	
Value of Exports§	£280.22m.		£230.19m.		£164.33m.		£118.43m.		£119.9m.		£133.6m.		£154.0m.		£97.8m.	

* April-Sept. † Holland, Belgium, Germany and Italy. ‡ Excluding bullion and specie. § Domestic produce only; includes bullion and specie.

Table 16.—Exports of India

(Years ending 31st March.)

A=Percentage Analysis of trade by commodities. B=Percentage Distribution by markets of trade in commodities.

Commodity and Markets	1928/29		1929/30		1930/31		1931/32		1933/34		1934/35		1935/36	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Rice (not in husk)	8		10		11.5		11.5		7.2		6.6		6.7	
United Kingdom		2.0		1.5		2.5		2.0		4.0		5.2		4.5
Ceylon		25.5		20.5		22.0		20.5		25.6		27.0		31.9
Straits Settlements		9.0		9.5		11.0		9.0		8.3		8.1		9.9
Rest of Empire		14.5		14.5		14.5		15.0		17.7		20.5		25.0
Germany		11.0		16.0		6.0		10.0		13.1		8.6		5.0
China		2.5		9.0		19.0		15.0		8.8		9.5		4.5
Dutch East Indies		7.5		12.0		7.5		6.0		3.9		5.4		4.7
Other Countries		28.0		17.0		17.5		22.5		18.6		15.7		14.5
Seeds (all forms)	9		8.5		8		9.5		9.3		6.8		6.3	
United Kingdom		14.0		16.5		15.0		13.0		23.8		32.5		20.3
Rest of Empire		4.5		3.0		3.0		2.5		3.2		2.6		2.0
Europe *		72.5		68.5		59.0		70.5		58.6				
U.S.A.		4.0		4.0		3.5		4.0		10.7				
Other Countries		5.0		8.0		19.5		10.0		3.7				
Tea (black and green)	8		8.5		10.5		12.5		13.6		13.0		12.1	
United Kingdom		84.0		85.0		84.5		87.5		88.5		90.2		89.3
Rest of Empire		7.0		7.0		6.5		6.0		7.2		5.8		6.1
U.S.A.		2.0		2.5		2.5		2.5		2.3		2.2		1.8
Other Countries		7.0		5.5		6.5		4.0		2.0		1.8		2.8
Cotton (raw)	20		21		21.5		15		18.2		22.5		20.5	
United Kingdom		6.5		6.5		6.5		6.5		12.7		9.8		13.3
Europe *		33.5		31.0		26.5		21.5		30.0				24.0
Japan		44.0		42.0		45.0		47.0		39.6		61.6		54.2
China		11.5		14.5		16.0		19.5		12.1		8.5		3.1
Other Countries		4.5		6.0		6.0		5.5		5.6				5.4
Jute (raw)	10		8.5		6		7		7.5		7		8.3	
United Kingdom		23.5		24.5		17.5		28.0		23.3		21.6		21.6
Europe *		53.5		53.0		56.5		46.0		54.2				40.8
U.S.A.		10.5		9.5		8.0		8.0		6.9		7.0		10.0
Other Countries		12.5		13.0		18.0		18.0		15.6				27.6
Jute (manufactures)	17		16.5		14.5		14		14.6		13.7		14.2	
United Kingdom		5.0		6.0		5.5		8.5		7.5		7.3		8.7
Australia		10.5		8.0		11.0		11.0		11.4		9.3		9.4
U.S.A.		35.5		36.0		34.5		32.0		31.7		28.7		32.4
Argentine		13.0		13.0		14.0		6.5		9.9		11.9		8.3
Other Countries		36.0		37.0		35.0		42.0		39.5		42.8		41.2
Hides and Skins	6		5		5.5		5.5		6.8		5.5		5.9	
United Kingdom		44.0		46.0		52.5		60.0		63.1		65.5		62.1
Europe *		20.0		16.0		14.5		10.5		13.1		11.2		9.3
Japan		2.0		2.0		3.0		3.0		2.5		2.8		2.0
U.S.A.		27.0		28.0		23.0		20.5		16.7		13.2		18.3
Other Countries		7.0		8.0		7.0		6.0		4.6		7.3		8.3
Percentage of Exports† Analysed	78		78		77.5		75		77.2		75.1		74.0	
Value of Exports†	£248.25m.		£234.00m.		£165.75m.		£117.36m.		£109.8m.		£116.6m.		£124.2m.	

* Germany, France, Holland, Belgium, Italy. † Domestic produce only.

Table 17.—Exports of South Africa

A=Percentage Analysis of trade by commodities. B=Percentage Distribution by markets of trade in commodities.

Commodity and Markets	1928 A	1928 B	1929 A	1929 B	1930 A	1930 B	1931 A	1931 B	1933 A	1933 B	1934 A	1934 B	1935 A	1935 B	1936 A	1936 B
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Sheep's Wool	33.5		29.5		26.0		23.5		36.2		32.5		32.1		36.8	
United Kingdom		43.5		40.5		42.0		31.0		35.4		24.1		25.0		
France		21.5		22.0		23.0		29.0		22.8		22.9		23.2		
Germany		20.0		19.5		17.5		20.5		20.2		21.4		34.0		
Belgium		8.0		8.0		7.0		8.5		11.2		11.7		7.7		
Other Countries		7.0		10.0		10.5		11.0		10.4		19.9		10.1		
Sheep Skins	4.0		3.0		3.0		2.5		4.2		3.1		2.7		3.8	
United Kingdom		34.0		26.5		27.0		20.0		26.5		29.0		23.3		
France		35.0		37.5		35.0		46.5		37.2		27.2		32.2		
United States		26.0		28.5		27.0		23.5		30.6		30.9		25.0		
Other Countries		5.0		7.5		11.0		10.0		5.7		12.9		19.5		
Diamonds (uncut)	17.5		22.5		12.0		11.5		4.1		7.7		7.1		9.4	
United Kingdom		75.5		75.0		68.0		75.5		9.1		70.0		68.8		
Holland		6.5		2.5		6.0		4.5		35.5		15.9		10.5		
Belgium		15.0		20.5		23.0		14.5		40.4		9.7		16.8		
United States		3.0		2.0		3.0		5.5		14.9		4.4		3.9		
Diamonds (cut)	...		2.5		4.0		3.5		4.7		3.6		3.0		3.0	
Belgium		...		51.5		41.5		57.5		35.0		73.9		76.9		
Holland		...		31.0		35.0		30.5		22.9		19.4		17.3		
Other Countries		...		17.5		23.5		12.0		2.1		6.7		5.8		
Oranges	.05		1.5		2.5		3.0		4.0		4.4		3.5		} 10.2	
Other Fresh Fruit	1.0		0.5		1.5		1.5		4.2		4.7		3.2			
Sugar	2.0		2.5		4.5		6.0		6.5		4.0		6.0		4.4	
Other Foodstuffs	10.5		8.5		13.5		9.5		7.9		9.6		13.8		8.6	
Foodstuffs (all kinds)	14.0		13.0		22.0		20.0		22.6		22.7		26.5		23.2	
United Kingdom		69.0		72.5		68.5		68.5		66.8		75.3		69.5		
Canada		—		2.0		6.0		15.0		18.4		12.6		9.0		
Rest of Empire		2.5		2.5		3.0		1.5		1.0		1.1		3.9		
Italy		4.0		4.0		2.5		3.0		4.4		1.5		0.6		
France		7.0		5.0		6.5		5.0		5.4		2.8		2.4		
Other Countries		17.5		14.0		13.5		7.0		4.0		6.9		14.6		
Wattle Bark and Extract	2.0		1.5		2.5		2.5		2.2		2.2	1.2	2.6		2.9	
United Kingdom		25.0		27.0		32.0		36.5		32.2		34.7		29.9		
Germany		12.5		20.0		19.6		19.5		15.1		16.0		15.8		
Japan		9.5		10.5		10.0		11.5		11.5		10.1		7.9		
Other Countries		53.0		42.5		39.0		32.5		41.2		39.2		46.4		
Hides and Skins (Ox)	4.5		2.0		2.0		1.5		1.8		2.0		1.6		2.5	
United Kingdom		62.0		55.5		43.0		26.0		28.8		37.3		22.7		
Europe		35.5		39.5		54.0		71.5		65.5		59.2		72.2		
Other Countries		2.5		5.0		3.0		2.5		5.6		3.5		5.1		
Percentage of Total Exports Analysed	75.5		74.0		71.5		65.0		75.8		73.8		75.6		81.6	
Value of Exports	£50.16m.		£49.27m.		£34.09m.		£24.45m.		£24.38m.		£24.87m.		£29.60m.		£26.65m.	
Gold Bars excluded from above	£25.79m.		£35.88m.		£37.08m.		£38.96m.		£46.41m.		£34.57m.		£42.74m.		...	

TABLE 18.—EXPORTS OF AUSTRALIA. (Years ending 31st June.)

A=Percentage Analysis of trade by commodities. B=Percentage Distribution by markets of trade in commodities.

Commodity and Markets	1928/29 A	1928/29 B	1929/30 A	1929/30 B	1930/31 A	1930/31 B	1931/32 A	1931/32 B	1932/33 A	1932/33 B	1933/34 A	1933/34 B	1934/35 A	1934/35 B	1935/36 A	1935/36 B	1936* A	1936* B
Butter	5		7		9		10		9.2		7.3		9.4		7.4		6.5	
United Kingdom		85		85		89		91		92.3		92.5		93.0		91.3		90.0
Other Countries		15		15		11		9		7.7		7.5		7.0		8.7		10.0
Wheat	15		11		17		20		18.3		7.9		11.4		11.5		9.6	
United Kingdom		25		54		33		38		42.6		74.3		54.8		48.9		63.0
India		33		19		9		—		1.4		0.5		0.2		0.9		—
South Africa		5		4		1		—		0.02		0.08		0.04		0.5		—
Italy		5		7		12		7		3.2		1.0		0.03		—		8.1
Japan		5		7		15		18		15.3		11.7		19.6		13.7		0.4
China		3				21		23		27.8		2.3		17.9		6.2		0.7
Other Countries		24		9		9		14		9.7		10.1		7.4		29.8		—
Flour	4		5		4		4		4.2		2.9		4.5		3.7		4.6	
United Kingdom		10		18		24		30		18.5		25.0		13.7		20.5		31.2
Dutch E. Indies		15		18		15		14		11.8		15.6		11.9		13.5		12.9
China }		—		—		—		1		25.8		13.5		0.1		0.2		0.2
Manchuria }														34.7		7.2		0.0
Hong Kong		—		—		—		—		8.0		5.2		7.4		7.1		7.7
Egypt		42		26		26		16		4.3		4.7		3.6		3.5		7.9
British Malaya		10		11		9		7		7.0		9.7		8.9		9.0		10.8
Other Countries		23		27		26		32		24.6		26.3		19.7		39.0		29.3
Beef	2		3		3		2		1.9		1.8		2.5		2.0		2.7	
United Kingdom		56		50		64		80		80.5		86.2		90.5		85.3		90.7
Belgium		14		15		13		10		4.4		1.7		0.4		0.2		—
Egypt		—		—		—		—		3.9		3.4		2.4		5.5		3.8
Other Countries		30		35		23		10		11.2		8.7		6.7		9.0		—
Mutton and Lamb	2		3		2		3		2.8		3.2		4.4		3.7		5.4	
United Kingdom		87		88		84		97		97.0		98.0		98.1		97.9		98.7
Other Countries		13		12		16		3		3.0		2.0		1.9		2.1		1.3
Wool	46		39		37		34		37.5		50.7		38.6		42.8		57.0	
United Kingdom		32		35		32		37		31.5		31.1		40.7		35.7		44.6
Europe†		47		49		43		33		42.6		42.9		28.8		24.7		34.7
Japan		14		12		20		23		21.9		21.2		22.1		27.9		0.05
Other Countries		7		4		5		7		4.0		4.8		8.4		11.7		20.65
Fruit (all forms)	3		4		5		5		5.5		5.0		4.9		2.3		2.1	
United Kingdom		73		73		72		70		79.6		71.5		74.3		...		...
Canada		7		4		10		12		8.4		10.0		11.7		...		...
Germany		8		8		5		2		3.5		5.4		1.4		...		...
Other Countries		12		15		13		16		8.5		12.9		12.6		...		...
Sheep Skins	3		3		2		1		1.4		2.3		1.8		2.3		3.4	
France		52		51		53		48		69.0		64.3		61.4		...		...
United Kingdom		25		27		29		26		21.1		22.6		16.2		...		...
United States		14		15		11		15		2.9		7.9		3.9		...		...
Other Countries		9		7		7		11		6.4		5.2		18.5		...		...
Non-ferrous Metals	5		7		6		4		4		3.4		3.2		4.1		4.9	
United Kingdom		50		52		59		69		80		78.7		84.0		...		...
Europe		21		26		22		14		8		9.8		1.1		...		...
India		13		12		10		7		2		—		—		...		...
Other Countries		16		10		9		10		10		11.5		15.0		...		...
% of Exports† Analysed	85		82		85		83		84.8		84.5		80.7		78.3		96.2	
Value of Exports‡	£135.58m.		£95.75m.		£75.16m.		£74.12m.		£77.7m.		£89.9m.		£81.9m.		£97.8m.		£42.8m.	

* July-Dec. † France, Germany, Italy, Belgium. ‡ Domestic produce only (including silver).

Table 19.—Exports of New Zealand

A=Percentage Analysis of trade by commodities. B=Percentage Distribution by markets of trade in commodities.

	1929 A	1929 B	1930 A	1930 B	1931 A	1931 B	1932 A	1932 B	1933 A	1933 B	1934 A	1934 B	1935 A	1935 B	1936† A
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Butter	24.1		26.7		31.0		31.0		29.4		21.2		29.4		27.0
United Kingdom		76.3		81.3		98.5		98.5		98.4		97.8		96.7	
Canada		20.5		16.7		0.2		0.3		0.3		0.2		0.1	
Rest of Empire		0.3		0.3		0.3		0.3		0.4		0.7		0.5	
Other Countries		2.9		1.7		1.0		0.9		0.9		1.3		2.7	
Cheese	12.8		14.5		13.0		14.4		12.0		9.9		9.4		9.0
United Kingdom		99.6		99.8		99.9		99.9		99.9		99.9		99.8	
Other Countries		0.4		0.2		0.1		0.1		0.1		0.1		0.2	
Meat (including Poultry and Game)	19.4		25.0		26.4		24.8		25.1		25.4		27.9		29.2
United Kingdom		89.2		97.8		99.0		99.3		99.3		99.5		99.1	
Rest of Empire		3.5		1.3		0.6		0.6		0.5		0.4		0.4	
Other Countries		7.5		0.9		0.4		0.1		0.2		0.1		0.5	
Hides, Skins and Furs (undressed)	5.4		5.0		3.7		2.9		4.7		4.7		5.2		5.8
United Kingdom		23.8		30.4		42.7		45.4		27.6		33.1		27.8	
Australia		10.4		7.1		7.4		14.7		7.0		11.9		8.7	
Canada		2.2		2.3		2.0		4.5		10.5		7.0		6.7	
U.S.A.		55.8		48.0		34.8		27.9		38.7		30.1		42.0	
France and Germany		5.6		6.1		5.6		5.6		11.2		10.4		8.0	
Other Countries		2.2		6.1		7.5		1.9		5.0		7.5		6.8	
Raw Wool	28.0		17.3		16.0		16.7		18.7		26.4		15.2		23.5
United Kingdom		69.5		80.4		76.8		76.5		73.8		65.2		68.8	
Rest of Empire		3.7		3.4		4.1		3.1		4.4		5.1		7.6	
U.S.A.		4.3		3.5		0.7		0.6		1.2		0.8		4.3	
France		11.0		5.8		6.7		7.4		7.4		8.4		5.1	
Germany		6.5		3.0		4.6		3.8		3.8		6.3		1.3	
Japan		2.2		1.0		3.2		3.2		3.1		5.5		3.4	
Other Countries		2.8		2.9		3.9		5.4		6.3		8.7		9.5	
Percentage of Total Analysed	87.7		88.5		90.1		89.8		89.9		87.1		87.6		94.5
Total Value of Exports*	£54.55m.		£43.80m.		£31.42m.		£31.40m.		£32.01m.		£38.01m.		£37.50m.		£47.00m.

* Excluding exports of gold and silver bullion and coin.

† Figures for trade by countries are not available for 1936.

Table 20.—Wool: World Production and Trade

(a) WORLD PRODUCTION OF WOOL

(million lbs., Years ending June 30th.)

Countries	1927/28	1928/29	1929/30	1930/31	1931/32	1932/33	1933/34	1934/35	1935/36
1A. British Empire:									
Australia	888.1	968.2	937.6	912.1	1,006.6	1,062.6	995.9	1,021.3	963.0
New Zealand	262.2	272.0	272.9	271.1	282.8	288.4	300.5	276.0	272.0
Union of South Africa	278.0	290.0	309.0	302.0	314.0	330.0	284.0	222.0	250.0
United Kingdom	114.0	114.0	112.0	111.0	113.0	119.0	120.0	115.0	109.0
Canada	18.7	19.6	20.3	21.0	20.4	20.5	19.3	19.5	19.4
Irish Free State	17.8	18.0	18.6	18.9	19.3	19.6	19.6	17.0	16.5
Total (excluding India and Colonial Empire)	1,578.8	1,681.8	1,670.4	1,636.1	1,756.1	1,840.1	1,739.3	1,670.8	1,629.9
1B. Certain Foreign Countries:									
United States	356.7	383.8	400.3	432.8	464.4	440.5	459.8	451.0	452.7
Argentina	339.0	347.0	353.0	361.0	378.0	388.0	385.0	376.0	360.0
Uruguay	140.0	138.0	160.0	162.0	104.0	112.0	95.0	117.0	117.0
France	59.4	58.9	57.6	57.6	56.0	54.3	53.8	53.6	52.7
Roumania	45.5	44.0	43.9	43.5	42.8	43.3	43.3	43.0	42.9
Algeria	36.4	36.8	47.2	49.3	28.1	39.3	39.0	41.0	43.0
Turkey	47.6	42.4	35.4	36.8	41.3	41.3	38.7	37.5	43.5
Germany	35.3	33.6	32.2	32.4	32.4	31.5	31.3	32.2	36.3
Italy	56.0	52.0	50.0	48.0	44.0	42.0	41.0	36.0	*
Yugoslavia	27.8	27.1	27.0	27.1	27.8	29.5	29.8	30.1	31.0
French Morocco	27.0	28.1	31.0	27.9	23.1	26.4	27.6	28.3	32.5
Chile	34.8	33.6	29.4	26.7	28.5	33.7	27.9	*	*
Total of above	1,205.5	1,225.3	1,267.0	1,305.1	1,270.4	1,281.8	1,271.6	1,273.6	1,275.5
2. Other Empire Countries†	124.0	124.5	125.4	121.2	121.9	124.3	123.5	117.7	121.9
Other Foreign Countries:									
Europe	177.4	179.1	174.4	182.7	182.3	181.5	183.4	180.0	176.4
Africa	17.8	19.7	21.4	18.9	18.0	17.6	19.7	21.9	21.9
America	59.6	61.7	61.5	64.8	65.4	64.1	65.7	69.0	69.4
Asia‡	200.7	203.3	201.2	210.4	213.5	210.1	205.5	206.1	206.4
Soviet Russia	370.0	392.0	394.0	302.0	218.0	143.0	136.0	141.0	167.0
Total	949.5	980.3	977.9	900.0	819.1	740.6	733.8	736.4	763.0
Grand Total	3,733.8	3,887.4	3,915.3	3,847.0	3,845.6	3,862.5	3,744.7	3,680.8	3,668.4

* Not yet available. Assumed same as previous year in total.
† Including wool production in India, estimated at a constant figure of 100 million lbs.
‡ Including wool production in China, estimated at a constant figure of 110 million lbs.

(b) DOMINION EXPORTS OF WOOL—AUSTRALIA

(million lbs.)

Exported to	1928	1929	1930	1931	1932	1933	1934	1935	1936
Greasy:									
United Kingdom	177.5	215.9	246.4	240.9	231.7	264.3	201.6	294.493	286.4
France	138.4	163.2	180.6	116.1	131.5	90.8	59.8	80.303	73.9
Germany	86.9	92.2	113.2	85.2	95.5	119.7	59.4	27.381	33.4
Japan	100.0	88.5	113.6	181.5	190.5	203.1	139.1	234.475	122.9
Belgium	82.6	94.9	78.4	68.3	71.9	104.6	86.2	129.586	124.0
Italy	37.3	34.3	44.7	46.0	55.1	66.7	34.6	10.481	16.3
United States	22.0	18.5	24.1	17.6	3.5	7.8	3.7	10.036	58.9
Sweden	0.9	1.5	1.3	1.5	2.0	1.2	2.1	—	1.3
Netherlands	—	0.7	0.6	1.0	0.8	3.4	10.4	18.872	12.5
Other Countries	20.7	10.1	3.7	2.5	9.0	15.5	15.4	—	—
TOTAL	666.3	719.8	808.6	760.6	791.5	877.1	612.3	844.573	763.6
Scoured and Washed:									
United Kingdom	21.4	25.7	26.0	29.0	32.0	33.0	31.2	34.493	33.4
France	7.1	5.0	7.2	5.3	7.3	8.3	5.9	12.541	8.1
Germany	3.8	3.3	5.2	4.6	6.4	11.7	5.4	4.230	3.4
Japan	0.9	1.6	0.8	2.7	4.0	3.2	0.6	.786	1.1
Belgium	6.3	6.4	4.4	6.4	6.4	15.1	10.2	12.397	9.6
Other Countries	9.3	3.0	2.1	4.2	4.2	8.6	6.5	9.251	11.1
TOTAL	48.8	45.0	45.7	52.2	60.3	79.9	59.8	73.698	66.7
GRAND TOTAL	715.1	764.8	852.3	812.8	851.8	957.0	672.1	918.271	830.3
GRAND TOTAL (estimated greasy equivalent)*	772.0	817.3	905.6	873.7	922.2	1,050.2	741.8	1,001.8	905.9

* The conversion factor used is: 1 lb. scoured and washed=$2\frac{1}{6}$ lbs. greasy (see Official Year Book of the Commonwealth of Australia).

(c) DOMINION EXPORTS OF WOOL—NEW ZEALAND

(million lbs.)

Exported to	1928	1929	1930	1931	1932	1933	1934	1935	1936*
Greasy:									
United Kingdom	121.5	128.8	119.1	121.1	135.6	162.7	129.9	107.7	157.0
France	24.1	27.9	13.1	15.7	18.2	19.7	17.9	11.6	31.9
Germany	13.8	14.8	5.7	9.9	8.1	9.7	14.3	2.8	...
United States	7.0	6.8	2.8	0.9	0.2	0.7	1.8	7.5	...
Netherlands	0.2	1.6	1.6	0.6	1.6	0.7	1.3	—	...
Belgium	2.6	2.9	2.9	3.7	6.6	13.6	11.9	18.0	11.1
Japan	7.9	6.3	2.5	6.2	7.5	9.1	12.1	8.3	19.0
Italy	2.6	2.0	1.1	1.0	2.8	2.7	3.0	0.3	...
Canada	2.7	1.9	1.5	1.9	1.5	2.2	4.2	—	...
Other Countries	7.0	5.4	3.9	4.5	4.6	8.5	13.2	17.7	...
TOTAL	189.4	198.4	154.2	165.5	186.7	229.6	209.6	173.9	300.6
Sliped:									
United Kingdom	23.8	21.8	27.3	33.7	35.3	33.1	27.6	28.0	...
United States	1.6	1.4	2.5	0.5	0.8	1.6	0.5	2.0	...
Canada	0.3	0.3	0.2	0.2	0.8	1.7	1.2	—	...
Other Countries	0.7	0.3	0.4	0.8	‡	0.2	0.4	0.1	...
TOTAL	26.4	23.8	30.4	35.2	36.9	36.6	29.7	31.0	...
Scoured:†									
United Kingdom	9.6	11.7	12.1	10.6	13.7	17.7	13.6	13.2	...
Other Countries	1.4	1.1	0.5	0.4	0.8	2.5	2.8	2.5	...
TOTAL	11.0	12.8	12.6	11.0	14.5	20.2	16.4	15.7	...
GRAND TOTAL:									
Actual Weight	226.8	235.0	197.2	211.7	238.1	286.4	255.8	220.6	300.6
Greasy Basis§	246.6	255.7	219.9	234.4	264.9	318.8	282.2	246.7	...

* 1936 figures apply to raw wool, all kinds, as separate figures for greasy, scoured and sliped are not available.
† Including small quantities of fleece-washed wool.
‡ Less than 50,000 lbs.
§ The conversion factors employed are: 1 lb. scoured=2 lbs. greasy; 1lb. sliped=1¼ lbs. greasy.

(d) DOMINION EXPORTS OF WOOL—SOUTH AFRICA

(million lbs., actual weight.)

Exported to	1928	1929	1930	1931	1932	1933	1934	1935	1936
France	55.3	67.3	67.7	72.3	109.5	65.3	49.5	65.32	50.9
United Kingdom	109.5	115.5	111.8	67.7	99.5	81.7	37.5	55.98	41.0
Germany	49.0	57.2	47.1	48.8	75.0	53.2	32.7	81.00	36.9
Belgium	24.6	25.5	23.3	23.1	38.8	34.7	24.0	23.07	21.4
Italy	10.0	14.1	17.3	16.9	37.3	23.7	22.8	12.81	7.0
United States	3.5	3.0	4.4	3.1	0.7	1.5	0.4	1.59	4.4
Other Countries	1.6	4.3	3.5	4.7	11.9	12.3	22.8	19.90	52.5
TOTAL	253.5	286.9	275.1	236.6	372.7	272.4	189.7	259.665	214.1

(c) EXPORTS—ARGENTINE

(Years ending September 30th: million lbs., actual weight.)

Exported to	1928/29	1929/30	1930/31	1931/32	1932/33	1933/34	1934/35	1935/36
United Kingdom	53.2	61.6	90.4	91.8	84.9	89.1	82.5	77.4
Germany	68.9	61.9	64.5	38.3	43.0	42.2	63.4	40.9
France	49.6	48.2	50.4	57.4	72.2	46.9	45.9	51.9
Italy	23.0	18.8	14.5	28.4	40.7	33.4	38.4	11.0
United States	33.8	28.8	28.3	12.8	40.8	17.5	38.1	48.8
Belgium	53.4	45.0	41.7	32.0	41.5	19.1	14.4	18.2
Netherlands	1.6	1.8	3.3	3.5	3.6	5.0	2.8	2.4
Sweden	2.3	1.2	0.5	0.7	1.1	3.8	0.4	*
Spain	0.7	0.9	2.6	2.6	2.4	1.2	2.5	*
Japan	*	*	*	*	*	9.6	0.9	4.1
Poland	*	*	*	*	*	4.6	8.9	7.5
Other Countries	4.9	5.2	7.4	7.6	14.6	2.5	3.6	9.3
TOTAL	291.4	273.4	303.6	275.1	344.8	274.9	301.8	271.5

* Included, if any, in "Other Countries."

(f) BRITISH IMPORTS AND RE-EXPORTS OF WOOL

(million lbs.)

Countries	1928	1929	1930	1931	1932	1933	1934	1935	1936
Imports from:									
Australia	222.9	269.9	257.0	290.0	302.0	308.7	255.8	359.0	338.5
New Zealand	182.3	194.0	174.7	188.4	201.1	243.7	216.5	171.6	232.7
Union of South Africa	162.4	167.5	158.2	131.0	211.3	174.1	106.7	118.5	108.9
Argentina	49.4	51.3	60.1	94.3	90.4	81.1	86.2	80.7	81.5
British India	55.1	53.9	34.3	35.8	34.6	40.6	37.8	37.9	42.1
Chile	25.4	16.0	30.1	25.2	24.8	21.0	23.0	12.9	9.6
Uruguay	27.4	9.2	31.4	38.5	16.2	25.3	16.5	16.4	18.0
France	20.6	18.9	15.8	19.0	12.9	23.5	15.7	14.1	21.5
Irish Free State	9.9	9.1	5.8	7.5	5.9	10.8	8.0	9.9	11.7
Other Countries	23.9	24.1	14.9	18.5	19.1	23.2	22.6	43.9	49.7
TOTAL	779.3	813.9	782.3	848.2	918.3	952.0	788.8	864.1	914.2
Re-Exports to:									
Germany	118.8	106.8	98.2	107.0	116.4	115.3	80.7	44.9	36.5
France	110.0	116.7	112.5	86.0	110.8	118.3	81.1	82.7	98.6
Belgium	58.8	54.2	45.0	38.7	57.1	72.5	50.1	61.9	55.1
United States	34.2	33.5	14.1	12.4	5.8	17.0	5.7	11.2	12.8
Netherlands	5.7	7.7	8.6	7.0	8.0	8.5	10.0	8.5	10.6
Italy	2.5	2.7	1.6	2.2	3.1	3.4	1.8	1.0	0.3
Switzerland	2.3	1.7	1.3	2.3	2.9	2.9	6.2	7.9	8.5
Canada	1.9	1.6	1.3	1.6	2.1	3.7	2.7	2.6	2.7
Other Countries	4.6	5.7	5.6	7.1	11.9	9.5	20.6	38.5	39.5
TOTAL	338.8	330.6	288.2	264.3	318.1	351.1	259.8	259.0	265.0
Exports of Imported Wool, treated in U. Kingdom, to:									
Germany	4.4	4.5	2.9	2.6	2.3	3.7	4.4	17.9	5.9
Other Countries	4.1	7.7	5.0	5.0	4.0	5.3	4.6	6.3	6.2
TOTAL*	8.5	12.2	7.9	7.6	6.3	9.0	9.0	24.2	12.1
Imported Wool retained in United Kingdom	432.0	471.1	486.2	576.3	593.9	591.9	520.0	580.9	637.5

* Includes small quantities of wool pulled from imported skins.

(g) PRICES OF WOOL

Average of four quarterly quotations, London Priced per lb. clean basis

	Merino Greasy 66's	Half-bred Greasy 56/58's	Crossbred Greasy 46's
1928	50¾	39¾	25½
1929	40½	29½	21¼
1930	26	18	12¾
1931	21	15¾	9
1932	19½	16½	7½
1933	24¾	20	8½
1934	28¼	23	10
1935	25½	18½	9¾
1936			
Jan.	30½	23	11¾
Feb.	31	23	12
Mar.	33	23½	11½
April	33	23½	11½
May	31	22	11½
June	29½	19	11
July	30½	21½	12½
Aug.	31½	22	13½
Sept.	30½	21½	13¾
Oct.	31	22	14
Nov.	35	25½	18
Dec.	38	28	19½
1937			
Jan.	35	28	21½

Table 21.—Wheat: World Production and Trade

(a) WORLD PRODUCTION OF WHEAT

NORTHERN HEMISPHERE

(Thousand centals, 100,000 lbs.)

	Average 1927/31	1932	1933	1934	1935	1936
England & Wales	26,844	24,752	35,258	39,155	36,355	30,867
Germany	81,594	110,299	123,554	99,926	102,894	101,909
Spain	84,342	110,526	79,164	112,103	94,793	72,896
France	166,429	200,117	203,202	203,110	170,973	146,612
Hungary	48,963	38,678	54,088	38,895	50,535	52,046
Italy	136,684	166,155	178,582	139,840	169,658	134,566
Poland	42,206	29,684	41,006	45,865	44,331	46,959
Roumania	69,373	33,822	71,443	45,933	57,864	77,231
Czechoslovakia	29,377	32,242	43,738	30,009	37,257	33,350
Yugoslavia	52,078	32,067	57,950	40,998	43,861	64,454
Others	120,903	142,162	166,228	132,754	139,516	126,332
Total Europe	831,949	895,252	1,018,955	928,588	944,236	887,322
U.S.S.R.	493,008	446,438	611,273	670,428	679,683	—
Canada	251,149	273,000	161,837	165,509	169,161	137,531
United States	531,804	446,445	316,448	298,157	375,806	375,977
Mexico	7,431	5,795	7,052	6,570	6,167	7,796
Total N. America	790,384	725,240	485,337	470,236	551,134	521,204
India	201,824	202,138	211,725	210,874	217,907	211,344
Turkey	48,827	42,682	48,502	59,828	55,585	48,170
Others	31,939*	29,857*	35,571*	56,299	7,667	8,629
Total Asia	282,590*	274,677*	295,798*	327,001	281,159	267,143
Total N. Africa	66,695	76,563	63,326	80,718	67,996	57,861

SOUTHERN HEMISPHERE

(Thousand centals, 100,000 lbs.)

	Average 1927/28—1931/32	1932/33	1933/34	1934/35	1935/36	1936/37
Argentina	149,511	141,228	153,707	144,403	84,614	149,915
Uruguay	7,138	3,147	8,206	6,403	9,058	6,301
Union of S. Africa	5,586	6,376	5,722	9,206	12,117	8,728
Australia	97,078	127,973	96,000	80,659	85,559	80,509

* Excluding Manchuria.

(b) UNITED KINGDOM—IMPORTS AND RE-EXPORTS OF WHEAT

(Nearest 000 cwts.)

IMPORTS

Countries	1930	1931	1932	1933	1934	1935	1936
British India	3,342	482	—	—	166	159	3,258
Australia	12,713	23,230	24,116	29,283	21,658	17,684	23,274
New Zealand	20	—	5	372	—	—	—
Canada	26,178	27,098	46,853	45,570	35,703	36,894	57,842
Other Empire	194	39	12	20	9	—	45
Total Empire	42,447	50,918	70,986	75,246	57,536	54,737	84,419
U.S.S.R.	18,717	28,931	3,275	5,754	2,095	6,910	167
Poland	170	57	32	66	214	828	—
Germany	326	2,301	4,711	4,443	2,019	175	—
Holland	249	409	188	193	805	923	—
Belgium	457	337	429	476	499	893	—
France	4,107	19	28	361	1,882	7,779	—
Hungary	11	40	20	132	287	—	—
Roumania	458	3,563	488	749	1,584	1,837	4,419
Persia	446	307	151	72	24	96	45
United States	21,036	11,242	4,636	5	131	593	—
Uruguay	203	12	20	8	186	349	—
Argentine	15,189	20,734	20,616	24,702	35,081	22,752	957
Other Foreign	959	549	57	167	281	3,354	10,801
Total Foreign	62,328	68,500	34,651	37,128	45,089	46,488	16,389
TOTAL	104,775	119,418	105,637	112,375	102,625	101,226	100,809
Av. Value per cwt.:							
Empire	8/8	5/5½	6/2½	5/10	6/–	6/8	7/8
Foreign	7/11	4/10	5/11	4/10	4/7	5/2½	6/8

RE-EXPORTS

Countries	1930	1931	1932	1933	1934	1935	1936
Irish Free State	648	415	399	458	526	555	460
S. and S.W. Africa	—	56	—	—	—	—	—
Other Empire	9	28	17	35	10	11	14
Total Empire	656	499	416	493	536	565	474
Germany	216	—	—	—	—	—	—
Holland	286	5	4	10	19	9	—
Belgium	—	28	—	—	214	7	—
Spain	—	—	328	—	—	—	—
Greece	—	—	257	—	—	—	—
Egypt	—	—	—	—	126	—	—
Others	23	11	5	7	—	—	—
Total Foreign	524	44	594	17	359	17	317
TOTAL	1,180	542	1,010	510	895	582	791

(c) AUSTRALIA—DOMINION EXPORTS OF WHEAT

(Nearest thousand centals—100,000 lbs.)

(Years ending June 30th).

Exported to	1930/31	1931/32	1932/33	1933/34	1934/35	1935/36
United Kingdom	23,997	29,531	30,564	27,319	24,719	22,355
India	6,118	182	1,063	168	101	405†
Irish Free State	947	2,471	2,163	2,376	1,574	1,787
Malta	293	342	228	152	195	209
New Zealand	62	18	807	4	5	*
Union of South Africa	574	277	12	24	13	196
Other British	180	76	110	87	64	445
Belgium	1,210	1,135	496	22	152	—
China	14,640	18,594	20,244	886	8,198	3,032
Egypt	1,886	984	612	122	963	0.3
France	210	98	—	—	—	—
Germany	116	122	28	—	—	—
Greece	1,124	184	360	—	—	1,522
Italy	7,619	4,917	2,194	420	11	—
Holland	1,295	1,244	316	38	5	—
Norway	132	187	123	164	—	—
Peru	422	790	979	—	—	—
Japan	10,606	12,878	10,738	4,632	9,318	6,626
Syria	—	156	126	—	—	—
Others	102	2,255	572	541	258	—
TOTAL	71,534	76,441	71,734	36,959	45,576	46,196
£000	14,744	19,220	17,805	8,874	11,612	14,019

* Included, if any, in "Other British." † Includes Ceylon.

(d) INDIA—DOMINION EXPORTS OF WHEAT

(Tons)

Exported to	1930	1931	1932	1933	1934	1935	1936
United Kingdom	172,595	19,463	—	—	8,612	6,955	131,285
Holland	400	—	—	—	—	—	—
Belgium	6,359	—	—	—	—	—	—
France	5,266	10	9	—	—	—	—
Arabia	1,906	1,748	1,154	540	760	626	751
Ceylon	*	133	184	209	278	286	329
Straits Settlements	*	312	326	248	217	299	235
Kenya	*	132	118	195	175	238	357
Egypt	—	—	—	—	900	—	56,978†
Others	7,164	1,241	1,055	832	863	998	3,504
TOTAL	193,690	23,048	2,846	2,024	10,905	9,402	193,439
R000	19,346	1,735	454	337	1,046	943	17,381

* Included in "Others." † For "orders cargoes."

(c) CANADA—DOMINION EXPORTS OF WHEAT

(Nearest thousand bushels. 3.6743 bushels=60 lbs.)

Exported to	1930	1931	1932	1933	1934	1935	1936
United Kingdom .	131,501	107,388	140,235	121,043	113,959	123,877	165,439
United States . .	10,248	4,950	52	375	12,813	21,438	23,952
Irish Free State .	386	717	735	1,937	2,677	2,336	2,667
British South Africa .	2,611	4,247	640	27	1,664	24	12
Malta . . .	260	379	—	138	59	245	40
New Zealand . .	117	144	137	215	83	72	167
Belgium . . .	9,996	14,167	18,466	14,714	11,538	7,459	21,098
Bolivia . . .	—	—	93	255	172	—	—
Brazil . . .	205	—	—	279	2	—	—
Chile . . .	—	—	37	74	18	2	19
China . . .	3,506	6,433	6,157	3,469	—	37	117
Columbia . .	596	524	219	140	181	174	218
Denmark . .	223	733	2,218	2,144	1,552	975	1,098
Finland . . .	—	—	—	191	123	472	384
France . . .	6,698	18,808	17,184	11,262	7,899	1,815	3,484
French Africa . .	54	497	89	56	83	67	—
Germany . .	5,210	5,714	7,534	8,798	2,676	281	1,414
Italy . . .	11,789	5,798	3,653	2,132	1,353	123	1,956
Japan . . .	6,902	6,976	6,426	4,185	3,798	2,235	5,002
Netherlands . .	6,937	9,271	16,024	16,480	5,227	1,847	7,397
Norway . . .	813	1,347	2,172	2,187	1,335	1,708	2,781
Peru . . .	940	514	512	391	227	—	19
Sweden . . .	1,820	1,727	2,462	1,229	328	307	414
Greece . . .	5,956	4,009	618	514	—	—	3,660
Portugal . .	679	278	161	—	—	—	—
U.S.S.R. . .	254	—	1,285	—	—	—	—
Spain . . .	—	—	1,096	—	—	—	—
TOTAL . . .	207,761	194,826	228,220	192,275	167,913	165,673	243,042
£000 . . .	185,786	117,871	128,386	122,688	131,158	137,153	226,914

TABLE 22.—BUTTER: WORLD TRADE

(a) IMPORTS INTO UNITED KINGDOM

(000 cwts.)

Imported from	1929	1930	1931	1932	1933	1934	1935	1936
New Zealand	1,304	1,564	1,926	2,139	2,512	2,677	2,638	2,792
Australia	768	951	1,558	1,795	1,692	2,104	2,113	1,694
Irish Free State	566	522	381	315	379	468	488	468
Canada	—	—	78	19	33	—	63	*
Union of S. Africa	12	25	40	37	25	21	82	75
S.W. Africa Territory	—	1	—	22	6	3	50	107
Kenya	1	6	6	7	5	8		
Other Empire Countries	1	1	1	2	2	3		
Denmark	2,204	2,319	2,466	2,584	2,519	2,486	2,186	2,171
U.S.S.R.	290	165	404	323	563	499	503	415
Sweden	248	280	212	176	227	302	184	149
Netherlands	130	89	96	47	146	301	465	746
Latvia	81	49	39	112	146	156	192	196
Finland	234	234	254	217	134	151	116	160
Lithuania	13	21	40	68	104	141	181	211
Estonia	110	96	125	83	84	123	119	116
Poland	69	65	33	3	—	50	99	190
Hungary	—	—	—	—	32	40	18	†
Austria	—	1	—	—	8	25	18	†
Germany	10	8	8	4	4	4	—	†
Norway	6	2	13	15	3	—	—	†
France	45	7	1	2	1	15	7	†
Belgium	—	—	—	1	2	14	†	†
Argentina	303	414	374	391	202	111	69	143
Other Foreign Countries	2	2	5	2	3	1	15	119
Total Empire Countries	2,652	3,070	3,990	4,336	4,654	5,284	5,435	5,136
Total Foreign Countries	3,745	3,752	4,070	4,028	4,178	4,419	4,133	4,616
TOTAL All Countries	6,397	6,822	8,060	8,364	8,832	9,703	9,568	9,752

† Included in "Other Foreign Countries." * Included, if any, in "Other Empire."

(b) NEW ZEALAND—DOMINION EXPORTS OF BUTTER

(Tons; Years ending July 31st.)

Destination	1928/29	1929/30	1930/31	1931/32	1932/33	1933/34	1934/35
United Kingdom . .	63,844	70,225	90,363	96,984	123,953	136,940	125,360
Canada	12,251	20,529	1,488	2	615	342	57
United States . . .	—	—	2	—	25	—	2,018
Other Countries . .	1,729	1,633	1,371	1,246	1,480	1,720	2,269
TOTAL . . .	77,824	92,387	93,224	98,232	126,078	139,002	129,704

(c) AUSTRALIA—DOMINION EXPORTS

(Tons; Years ending June 30th.)

Destination	1928/29	1929/30	1930/31	1931/32	1932/33	1933/34	1934/35	1935/36
United Kingdom . . .	39,237	41,079	66,169	83,973	93,382	101,808	109,674	87,917
Eastern Ports	4,927	5,521	5,106	5,820	5,894	6,024	5,710	6,883
Other Countries . . .	1,657	1,491	2,676	1,293	1,270	1,482	1,661	
TOTAL	45,821	48,091	73,951	91,086	100,546	109,314	117,500	94,800

(d) EXPORTS OF BUTTER FROM PRINCIPAL EXPORTING COUNTRIES

(000 cwts)

Country	1929	1930	1931	1932	1933	1934	1935	1936
Denmark . .	3,131	3,327	3,379	3,100	2,959	2,949	2,722	2,700
Scandinavian Countries* . .	826	863	741	572	579	680	604	651
U.S.S.R. . .	499	207	607	609	732	746	577	395
Netherlands† . .	931	825	649	401	559	726	922	1,184
Baltic Countries .	917	1,015	1,069	832	711	785	896	1,058
I.F.S. . .	561	525	378	330	404	508	531	518
New Zealand . .	1,654	1,884	1,989	2,186	2,635	2,615	2,789	2,800
Australia . .	941	1,130	1,715	2,046	1,889	2,203	2,380	1,656
Argentina . .	333	443	440	508	274	164	133	202
Eight Other Countries‡ . .	291	272	354	257	241	248	403	463(*a*)
	10,084	10,491	11,321	10,841	10,983	11,625	11,907	12,627

* Norway, Sweden and Finland.
† Estonia, Latvia, Lithuania and Poland.
‡ Canada, U.S.A., Belgium, Austria, Hungary, France, Union of South Africa, and South-West African Territory.
(*a*) Figures not available for Union of South Africa and South-West Africa—1935 figures used in the total.

(e) IMPORTS OF BUTTER INTO PRINCIPAL IMPORTING COUNTRIES

(000 cwts)

Country	1929	1930	1931	1932	1933	1934	1935	1936
United Kingdom* .	6,274	6,649	7,709	8,056	8,746	9,596	9,481	9,681
Irish Free State .	41	30	30	24	—	—	—	—
Germany . .	2,645	2,621	1,973	1,368	1,164	1,216	1,398	1,484
Belgium. . .	85	200	371	418	244	184	119	73
France . . .	87	115	365	233	181	86	13	38
Switzerland . .	149	168	208	73	10	6	3	29
Italy . . .	17	28	55	34	21	30	‡	:
Palestine . .	—	4	7	10	17	35	45	‡
Seven Other Countries† . .	557	596	339	295	218	200	222	884
	9,855	10,411	11,057	10,511	10,601	11,395	11,312	12,264

* Net imports, i.e. Total Imports less Re-exports.
† Czechoslovakia, Netherlands, Dutch East Indies, Algeria, British India, British Malaya and Canada.
‡ Not available—Figures for the last available year included in the total.

(f) PRICES OF BUTTER

Monthly Averages. London.

	English at Country Markets (per lb.)		Danish Finest (per cwt.)		New Zealand Finest (per cwt.)		Australian Finest Salted (per cwt.)	
	s.	d.	s.	d.	s.	d.	s.	d.
1931	1	5½	130	0	114	6	110	6
1932	1	4¼	119	3	102	9	99	3
1933	1	2¾	104	3	82	6	81	3
1934	1	2	99	0	73	3	70	9
1935	1	2½	113	0	91	9	90	3
1936 Jan.	1	3¾	119	6	95	0	94	3
Feb.	1	3¾	129	0	93	9	92	6
Mar.	1	3½	122	6	84	3	84	0
April	1	2¾	106	0	88	3	87	9
May	1	1¼	104	0	94	6	93	3
June	1	0¾	115	6	108	3	107	0
July	1	2	124	6	114	9	113	6
August	1	2¾	127	6	119	6	118	3
Sept.	1	3½	125	3	107	9	107	6
Oct.	1	3¾	122	6	99	9	100	0

TABLE 23.—CHEESE: WORLD TRADE

(a) IMPORTS OF CHEESE INTO U.K.

(000 cwts)

Imported from	1929	1930	1931	1932	1933	1934	1935	1936
New Zealand	1,801	1,961	1,733	1,849	2,059	2,092	1,763	1,681
Canada	723	678	707	747	630	520	471	603
Australia	50	48	68	74	93	115	134	91
U. of S. Africa and S.W. Africa Trty.	—	16	15	17	13	3	22	31
Irish Free State	2	2	2	2	1	5	9	
Netherlands	196	183	168	170	122	128	199	182
Italy	132	145	132	106	90	94	80	14
Switzerland	40	38	32	14	14	14	15	17
France	26	27	12	9	7	7	8	*
Denmark	6	7	5	6	6	6	10	*
Finland	2	1	3	3	2	2	2	*
Belgium	4	1	2	1	1	—	—	*
Germany	3	1	1	1	—	—	—	*
Norway	—	—	1	2	1	2	1	*
U.S.A.	7	4	4	—	—	—	—	*
Other Foreign Countries	2	—	1	2	1	1	1	58
Total Empire Countries	2,576	2,705	2,525	2,689	2,796	2,735	2,399	2,406
Total Foreign Countries	418	407	361	314	244	254	316	271
Total all Countries	2,994	3,112	2,886	3,003	3,040	2,989	2,714	2,676
Re-exports								
To Empire Countries	23	20	21	21	17			
To Foreign Countries	9	10	8	8	7	30	29	24
Total	32	30	29	29	24	30	29	24
Net Imports	2,962	3,082	2,857	2,974	3,016	2,959	2,685	2,652

* Included in other foreign countries.

(b) NEW ZEALAND—DOMINION EXPORTS OF CHEESE

(Tons; Years ending July 31st)

Exported to	1928/29	1929/30	1930/31	1931/32	1932/33	1933/34	1934/35
London . .	69,595	75,711	72,471	65,967	78,862	79,537	70,143
U.K. West Coast Ports . .	12,232	9,855	13,324	17,755	20,891	21,770*	19,509
Other . . .	663	254	67	72	123	93	160
TOTAL . .	82,490	85,820	85,862	83,794	99,876	101,400	89,812

* Including 39 tons for Hull.

(c) EXPORTS OF CHEESE FROM PRINCIPAL EXPORTING COUNTRIES

(000 cwts.)

Country	1929	1930	1931	1932	1933	1934	1935	1936
Netherlands . .	1,886	1,846	1,701	1,519	1,258	1,204	1,202	1,120
Italy . . .	641	723	795	593	469	494	†	†
Switzerland . .	618	586	481	387	402	347	359	361
Denmark . .	130	113	84	130	198	124	131	188
Finland . .	43	42	52	65	82	76	84	97
Bulgaria . .	24	22	28	23	23	24	38	38
Canada . .	830	716	757	776	662	546	497	730
New Zealand .	1,779	1,813	1,636	1,790	1,983	1,984	1,728	1,458
Australia . .	65	46	66	79	97	111	137	111
Six Other Countries*	102	119	152	121	139	164	167	‡194
TOTAL . .	6,118	6,026	5,752	5,483	5,313	5,074	4,837	4,891

* Irish Free State, Austria, Norway, Lithuania, Yugoslavia and Argentina.
† Not available, 1934 figures included in total.
‡ Figures not available for Argentina. 1935 figures included in total.

(d) IMPORTS OF CHEESE INTO PRINCIPAL IMPORTING COUNTRIES

(000 cwts.)

Country	1929	1930	1931	1932	1933	1934	1935	1936
United Kingdom .	2,962	3,082	2,857	2,974	3,016	2,958	2,684	2,677
Germany . .	1,309	1,216	1,075	970	812	665	551	550
Belgium . .	415	456	443	408	432	427	453	454
France . .	456	585	739	466	412	314	311	290
U.S.A. . .	682	610	553	497	432	424	437	534
Algeria . .	75	93	100	99	96	101	101	91
Morocco . .	24	25	32	30	32	32	32	†
Egypt . . .	59	67	66	47	55	58	65	65
Six Other Countries*	131	117	99	92	101	101	100	†96
TOTAL . .	6,113	6,251	5,964	5,583	5,388	5,083	4,734	4,789

* Spain, Malta, Dutch East Indies, Syria and Lebanon, India and Tunis.
† Figures not available for Morocco, Spain and Malta. 1935 figures included in total.

(e) CANADA—DOMINION EXPORTS OF CHEESE

(000 short cwts. : 1 cwt.=100 lbs.)

Exported to	1930	1931	1932	1933	1934	1935	1936
United Kingdom .	743	806	838	707	581	527	678
U.S.A. . . .	33	16	6	11	8	5	115
Others . . .	26	26	25	24	23	25	26
TOTAL . .	802	848	869	742	612	557	819

(f) PRICES OF CHEESE

(Monthly Averages. London)

	Canadian Finest White per cwt.		New Zealand Finest White per cwt.	
	s.	d.	s.	d.
1931 . . .	71	0	59	0
1932 . . .	68	9	60	6
1933 . . .	61	3	47	3
1934 . . .	54	6	46	9
1935 . . .	60	3	49	0
1936 January .	62	0	54	9
February .	62	6	52	6
March .	63	0	50	3
April . .	62	0	53	6
May . .	63	6	57	0
June . .	67	6	59	9
July . .	72	3	61	6
August .	68	9	68	9
September .	71	3	68	9
October .	70	3	70	0

APPENDIX—II

AGREEMENT TO REFRAIN FROM INVOKING THE OBLIGATIONS OF THE MOST-FAVOURED-NATION CLAUSE IN RESPECT OF CERTAIN MULTILATERAL CONVENTIONS

(Deposited for Signature with the Pan-American Union) July 15, 1934

The high contracting parties desirous of encouraging the development of economic relations among the peoples of the world by means of multilateral conventions, the benefits of which ought not to inure to countries which refuse to assume the obligations thereof; and desirous also, while reaffirming as a fundamental doctrine the policy of equality of treatment, to develop such policy in a manner harmonious with the development of general economic rapprochement in which every country shall do its part; have decided to enter into an agreement for those purposes, as set forth in the following articles:

Article I

The high contracting parties, with respect to their relations with one another, will not, except as provided in Article II thereof, invoke the obligations of the M-F-N clause for the purpose of obtaining for parties to multilateral conventions of the type hereinafter stated, the advantages or benefits enjoyed by the parties thereto.

The multilateral economic conventions contemplated in this article are those which are of general applicability, which include a trade area of substantial size, which have as their objective the liberalisation and promotion of international trade or other international economic intercourse, and which are open to adoption by all countries.

Article II

Notwithstanding the stipulation of Article I, any high contracting party may demand, from a State with which it maintains a treaty containing a most-favoured-nation clause, the fulfilment of the clause in so far as such high contracting parties accords in fact to such State the benefits which it claims.

Article III

The present agreement is operative as respects each high contracting party on the date of signature by such party. It shall be open for signature on behalf of any State and shall remain operative indefinitely, but any party may terminate its own obligations hereunder three months after it has given to the Pan-American Union notice of such intention.

Notwithstanding the stipulations of the foregoing paragraph, any State desiring to do so may sign the present agreement *ad referendum*, which agreement in this case shall not take effect, with respect to such State, until after the deposit of the instrument of ratification, in conformation with its constitutional procedure.

Article IV

This agreement is a single document in English, Spanish, Portuguese and French, all of which texts are equally authoritative. It shall be deposited with the Pan-American Union, which is charged with the duty of keeping it open for signature or resignature indefinitely, and with transmitting certified copies, with invitations to become parties, to all the States of the world. In performing this function, the Pan-American Union may invoke the assistance of any of its members signatory hereto.

In witness whereof, the undersigned Plenipotentiaries have signed this agreement on behalf of their respective Governments, and have affixed hereto their seals on the dates appearing opposite their signatures.

Opened for signature by the Pan-American Union, in accordance with a resolution of the Seventh International Conference of American States, this fifteenth day of July 1934, at Washington.

U.S. Department of State,
Treaty Information Bulletin No. 58.
July 31, 1934.

The following countries have since adhered to this agreement:

U.S.A.
Panama
Cuba
Nicaragua
Belgium-Luxembourg
Guatemala
Greece
Colombia

APPENDIX III

THE PROGRESS OF UNITED KINGDOM TRADE UNDER BILATERAL AGREEMENTS

Trade Agreement Policy after Ottawa

Following upon the reorganisation of trade relations within the British Empire, which was carried out by the Ottawa Agreements in 1932, the United Kingdom concluded a number of bilateral trade agreements with foreign countries—notably with Norway, Sweden, Denmark, Finland, the three Baltic States, Argentina, Poland and the Soviet Union. Certain agreements of a less comprehensive nature were also made with France and Germany, and one or two with smaller countries. The agreements with the Scandinavian and Baltic States were all concluded in the course of 1933 or 1934, and were rather similar in pattern. The Polish agreement, which was concluded early in 1935, was also of a fairly straightforward character. The Argentine agreement, however, which was concluded in the middle of 1933 and prolonged with certain modifications at the end of 1936, was of a more complicated nature and, in effect, constituted an exchange and payments agreement. The Russian agreement also contained a novel feature in that it provided for the regulation of Anglo-Russian trade in accordance with certain pre-determined ratios.

The United Kingdom was in a strong bargaining position in 1933. Having never pursued a bargaining policy before, the British Government acquired a new and powerful weapon in the shape of the tariffs of 1931 and 1932 and the powers of quantitative regulation for certain agricultural imports. Moreover, in 1932 the United Kingdom imported from the group of countries comprising the Scandinavian and Baltic States, Finland, Argentine and Russia, goods to the value of £150 millions against exports (including re-exports) of £49½ millions. Invisible exports to this group can hardly have made good the deficit on merchandise trade of £100 millions.

Coal Quotas

In the agreements with the Scandinavian and Baltic countries, the most important concessions gained by the United Kingdom were definite quotas for British coal, and certain tariff concessions, particularly on cotton and certain other textiles. Various informal "purchase agreements" to favour the sale of certain British goods were attached to some of the agreements, although the purchase agreements themselves are signed, not by governments, but by private organisations. United Kingdom coal exporters had formerly held a large share of the import market in these countries, but had lost it to Polish and German firms during the coal stoppage of 1926. The trade agreements of 1933

and 1934 went some way towards restoring the position of British coal in these markets, though only, as it was later found, at the cost of diverting Polish and German competition to other markets. The minimum share of each of these markets gained for British coal under these agreements was as follows:

	Per cent		Per cent
Norway	70	Latvia	70
Sweden	47	Lithuania	80
Denmark	80	Estonia	85
Finland	75		

These countries have adhered faithfully to their undertakings to purchase British coal, though there have been complaints concerning the prices which have had to be paid and the ava lability of supplies of the requisite qualities at the right moment.

Tariff Concessions in Scandinavian and Baltic Markets

The tariff conces-ions under the Danish agreement involved reductions of duty or additions to the free list in respect of a number of items, of which the most important were pig-iron, coal and coke, certain classes of cotton, woollen and artificial silk textiles and motor cars, and the stabilisation of other duties at the existing level. In addition, certain "puchase agreements" were made as between Danish and British industries, with a view to giving effective preference to British goods. These chiefly affected iron and steel and certain materials ancillary to the curing and packing of bacon for the British market.

The Swedish and Norwegian trade agreements also conceded more favourable tariff treatment or free importation for certain classes of British goods, notably raw wool, tin and nickel, iron and steel sheets, cotton textiles and motor cars, motor cycles and cycles in Sweden, and an approximately similar, though more extensive, list in Norway.

Finland reduced duties on most classes of cotton textiles, wool and silk mixtures, jute and linen, herrings, tinplate, motor cars and spirits; while existing duties were stabilised in the case of cotton and wool yarns, tyres and linoleum. Finland also entered into purchase agreements similar to those concluded by Denmark.

The trade agreements with the Baltic States, which followed on those concluded with the Scandinavian countries, contained, other than the granting of the quotas for coal, a number of concessions for British goods. Lithuania modified or stabilised the tariff treatment of a number of items, including coal, coke, galvanised and other iron and steel sheets, herrings, and certain cotton and woollen textiles, and also undertook to encourage the use of British shipping and generally to favour the purchase of British and British colonial goods. Estonia reduced the tariffs on coal, coke, certain textiles, galvanised sheets and tinplates. Both Lithuania and Estonia agreed to give the United Kingdom a larger share of the market for imported coke. Latvia conceded a large quota for salted herrings from the United Kingdom, and reduced the duties on a number of items—mainly cotton and woollen textiles. In the case of all three countries purchase agreements with United Kingdom organisations were appended to the main agreements.

Tariff Concessions by the United Kingdom

The concessions made by the United Kingdom were not, on the whole, considerable since the bargaining position of the country was favourable at the time when these negotiations took place. Tariff reductions were conceded on various classes of paper, timber and timber products which benefited Norway, Sweden and Finland almost equally. There were also reductions on certain special steels, granite and ball bearings in the Norwegian and Swedish agreements. The reductions in various classes of timber products, such as plywood, were immediately enjoyed by the Baltic States, according to their most-favoured-nation rights, so that the specific new concessions which they afterwards received under their own agreements were negligible in extent.

British Agricultural Import Policy

According to the British agricultural policy of placing the interests of the home farmer first and then favouring the Dominion exporter at the expense of foreign countries, the United Kingdom dealt severely with the trade in dairy products, which is the main item of export of certain of these countries. Some of the Baltic States in particular hoped to obtain quotas for their exports to the United Kingdom. But the United Kingdom did not go further than promising that they should have most-favoured-nation treatment. The type of formula adopted was that the British Government would guarantee an "equitable share" under any scheme that might be imposed. In certain cases, however, a minimum quota was fixed. In the Danish agreement, the United Kingdom undertook not to regulate the quantity of imports of bacon, hams, butter, eggs or cream from Denmark, "except in so far as may be necessary to secure the effective operation of a scheme or schemes for the regulation of the marketing of domestic supplies." In the event of such allocations, the Danish share was to be not less than 62 per cent of the share of bacon imported from *foreign countries*. For butter, a minimum quota of 2,300,000 cwts. and an equitable share of any excess of total imports over 8,100,000 cwts. was conceded. For eggs, a provisional minimum quota of 5½ million great hundreds was fixed, but the United Kingdom had power to reduce this figure by consultation, if the state of the home market should warrant it, provided that Denmark continued to receive 38 per cent of the total import trade. A minimum import quota was also fixed for Danish fish. Similar quotas were fixed under the Norwegian and Swedish treaties. In addition, a quota was fixed for United Kingdom imports of Swedish butter, and Norway received the assurance that her exports of dairy produce and poultry to the United Kingdom, being negligible in proportion to total British imports, would probably be left unregulated in the event of a scheme of quantitative restriction of imports.

The quotas imposed were, for the most part, based on the actual experience of previous years. Nevertheless, the result has been a progressive restriction of the imports of dairy produce from these countries, since the total imports from foreign countries have fallen in accordance with British agricultural policy. Consequently, United Kingdom imports of Danish agricultural produce have fallen more than total imports, in spite of the guaranteed quota. Danish exporters have been partly compensated—it might be said mainly out of the pockets of British consumers—by a rise in the prices received by them,

which has partly offset the fall in the quantity exported. Certain statistics illustrating the trend of Anglo-Danish trade are given at the end of this Appendix, and further figures relating to the trade in dairy produce are contained in Appendix I.

Anglo-Polish Agreement of 1935

The Anglo-Polish trade agreement was concluded in March 1935, and since statistical data of Anglo-Polish trade since its enforcement are not fully available, its effects have been excluded from the statistical analysis of trade agreement policy which will be referred to at a later stage. The agreement, briefly, secured the consolidation of Polish import duties on a range of British goods which included herrings, a number of industrial chemicals, wool tops, yarns and textiles, leather, cotton yarns and textiles, tyres, metal ware, wire, machinery, electrical fittings, and cinematograph films, and on a further list of British Colonial products including asphalt, a minimum quantity of palm oil, certain vegetable extracts and sisal. In return, the United Kingdom agreed to maintain the existing tariff treatment of roundwood logs, pit props, telegraph poles and woodpulp (free entry), sawn wood, softwoods and sleepers, boots and shoes, bacon, hams, eggs and poultry. Moreover, Poland received a guarantee of equitable treatment in any scheme of quantitative regulation for the last four items, and guaranteed to give equitable quota treatment in return for British and Colonial goods, wherever quotas were in force.

Anglo-Argentine Agreements of 1933 and 1936

The Anglo-Argentine agreement of 1933, which was renewed with slight modifications in 1936, was of a different type. The United Kingdom, in the first place, agreed not to restrict imports of Argentine chilled beef below the levels required under the Ottawa Agreements, except in so far as such restriction might become necessary in order to maintain a remunerative level of prices. Reduction was not to take place by more than 10 per cent without an all-round consultation with meat-exporting countries, and any further reduction, if agreed upon, would be shared by the Dominions. Frozen beef, mutton and lamb were not to be restricted below the "Ottawa level" without similar sacrifices by the Dominions.

In the second place, measures were taken to deal with the frozen balances standing to the credit of United Kingdom exporters and shareholders in Argentina, to the amount of approximately £10 millions. The Argentine Government agreed to apply the whole of the sterling proceeds of Argentine exports to Great Britain, less about £3 millions necessary for meeting public external debt obligations elsewhere, to meeting the current requirements of the United Kingdom for trade and interest payments. The Argentine Government set aside about £1¼ millions for the immediate liquidation of the smaller commercial debts; the larger outstanding balances were funded in sterling bonds. The Argentine Government also promised most-favoured-nation treatment in the allocation of exchange for remittances and "benevolent treatment" and "due and legitimate" protection for British enterprises operating in Argentina. Under the exchange agreement, Argentina made available a total of £87,371,000 in sterling over three years for the satisfaction of current claims for the United Kingdom. Although this was not sufficient

to settle all claims, e.g. of investors, it represented practically the whole of the proceeds of Argentine exports to the United Kingdom. Only £7,708,000 was retained for other purposes. It would appear that in practice, the Argentine exchange control has been operated so that United Kingdom exports to Argentina have received a considerably more favourable rate of exchange than some of their chief competitors.

In addition, Argentina agreed to maintain coal and various other items on the free list, and reduced or conventionalised the duties on a fairly long list of goods, including various types of textiles, iron and steel, metals and machinery.

The new agreement modifies the old in certain respects. The Argentine Government has been induced to accept a levy on imports of foreign meat by the United Kingdom, which is not, however, to exceed $\frac{3}{4}$d. per lb. on chilled beef, $\frac{2}{3}$d. per lb. on frozen beef, and 20 per cent *ad valorem* on other meat. No duties will be imposed on mutton, lamb or pork. Imports of chilled beef from Argentina, which the British Government had already restricted by 10 per cent from the 1932 level under its powers in the 1933 agreement, are not to be reduced from the 1935 level by more than 2 per cent in 1937, 4 per cent in 1938 and 5 per cent in 1939. Similar arrangements apply to other meats. In addition, the United Kingdom Government has promised to impose no quotas on wheat or maize, and not to increase the duty on wheat or impose a duty on maize. The Argentine Government in return has reduced the sum withheld from the proceeds of exports to the United Kingdom for external debt service from £3 millions to £1½ millions. The benevolence of the Argentine Government towards British undertakings in Argentine is reiterated, and specific safeguards have been added for meat and shipping companies in British ownership if the Argentine Government should decide in favour of State control of exports.

Anglo-Soviet Agreement of 1934

The agreement with the Soviet Union introduced a novel feature in that the ratio between Russian exports to and imports from the United Kingdom was definitely fixed. Prior to the agreement, which was concluded early in 1934, Russia had enjoyed a highly favourable balance of trade with the United Kingdom. The ratios agreed upon were as follows:

	Ratio of Russian Payments in United Kingdom to Russian Proceeds
1934	1:1.7
1935	1:1.5
1936	1:1.4
1937	1:1.2
Thereafter	1:1.1

In calculating the balance, allowance is made for all payments, not only for goods of United Kingdom manufacture, but for all goods bought in the United Kingdom, and payments for the use of British shipping, and the repayment of credits. For this reason, the agreement has not resulted in the increase in British exports to Russia of manufactured goods which was hoped for at one time. Russia has, rather, implemented her undertaking by purchasing in London increasing quantities of Dominion and foreign

raw materials which figure as re-exports from the United Kingdom. The effect of this is shown in the figures given later of trade with Russia. This agreement has lately been much reinforced by the arrangement under which a substantial sterling credit has been made available to Russia, with the collaboration of the Export Credits Guarantee Department, for expenditure within a relatively short period on British manufactures.

One important feature of the Russian agreement was the provision concerning most-favoured-nation treatment. The Anglo-Russian treaty formerly in existence which ensured M-F-N treatment, had been denounced by the United Kingdom in order to implement its promise to Canada, given at Ottawa, to prevent the importation from any one country of goods that were subsidised or otherwise assisted in order to defeat the intentions of the imperial preference system. In asking this, the Canadians were seeking to mitigate the competition of Russian timber with their own. M-F-N treatment of Russian goods was renewed under the 1934 agreement, but with a special modification which enables either party to give notice that the prices created or maintained by the other for any commodity "are likely to frustrate preferences accorded or detrimentally affect the production of goods." If satisfaction is not forthcoming by negotiation, the injured party may except the goods complained of from M-F-N treatment.

Other important features were the renewal of diplomatic privileges for the Russian trade delegation in the United Kingdom, the admission of exports to Russia as eligible without discrimination for guaranteed credit schemes, and the extension of M-F-N treatment by Russia to such of the Crown Colonies as do not discriminate against Russia.

Changes in United Kingdom Trade with "Trade Agreement Countries"

The effects of these trade agreements upon the volume and direction of British trade cannot be accurately disentangled from all the other forces at work. Taking the group as a whole with which the 1933 and 1934 trade pacts were concluded—that is to say, Norway, Sweden, Denmark, Finland, the Baltic States, Russia and Argentina—there has been a considerable rise in British exports and re-exports since 1932, and a rise in imports which is certainly no larger than could be expected as a result of trade recovery. In fact, the United Kingdom has considerably enlarged the export trade with this group, while tending to cut down the import trade. In 1932, exports to the group amounted to £46 millions and re-exports to £3½ millions. By 1936, exports had increased to £59 millions and re-exports to £12 millions. Imports, on the other hand, fell abruptly from £150 millions in 1932 to £136 millions in 1933, and by 1936 had risen only to £153 millions.

Relation of Changes to Total United Kingdom Trade

Viewed in proportion to the movements in total British overseas trade, however, these changes are of far greater significance on the import than on the export side. This group increased its share of the British export trade only from 12.6 per cent in 1932 to 13.4 per cent in 1936, and of the re-export trade from 6.8 per cent to 20.4 per cent (due almost entirely to the increase in re-exports to Russia). British imports from the group have, however, fallen from 21.4 per cent of the total in 1932 to 18.1 per cent of the total in 1936. This decline has been due mainly to the increasing importance of imports from the Empire, which represented 39.2 per cent of total United Kingdom imports in 1936 against

35.4 per cent in 1932. But the "trade agreement countries" have fared even worse in this respect than other foreign countries whose proportion of the British import trade fell only from 43.2 per cent in 1932 to 42.7 per cent in 1936.

In the export trade, exports to the "trade agreement countries" have risen from £46 millions to £59 millions between 1932 and 1936, while exports to other foreign countries have risen only from £153½ to £164½ millions. It may be, and commonly is, argued that these trends represent irrefutable evidence of the virtue of bilateral trade agreements as a means of expanding export trade. The evidence is not, however, irrefutable. "Concessions" which are obtained under trade agreements are often secured at the direct expense and by the displacement of competitors. Their reaction may be merely to intensify their competition in other markets. There is good reason to believe that this has happened in the case of the coal trade, where the Scandinavian and Baltic markets were secured from Polish and German competitors by the imposition of quotas. It is, perhaps, less likely to happen where the concessions obtained consist of tariff reductions, which tend to become generalised under M-F-N obligations. But "purchase agreements" may have much the same effect in diverting competition as quotas.

Full figures illustrating the course of British overseas trade in recent years with the principal countries with which bilateral pacts have been concluded, are given at the end of this appendix. It will be seen that changes in the import trade of the United Kingdom have not been of great importance except in the case of imports from Finland, Sweden and Lithuania, which have risen appreciably since 1932, and of imports from Denmark and Argentina, which have fallen. British exports have shown a marked increase all round during this period, but the rise has been most striking in exports to Denmark, Argentina, Latvia and Lithuania. The recent history of the re-export trade is dominated by the increase of re-exports to Russia from £3,150,000 in 1933 to £12,336,000 in 1936. In this way, Russia has fulfilled the terms of the 1934 agreement to purchase in the United Kingdom, since exports of United Kingdom goods to Russia have risen only from £3,341,000 in 1933 to £3,493,000 in 1936.

Further tables show the trend in British exports of coal and cotton textiles. Coal exports to the Scandinavian and Baltic countries increased from just over 5 million tons in 1932 to about 9 million tons in 1936. These markets took over 25 per cent of total United Kingdom coal exports in 1936 as against 13.2 per cent in 1932. This increase has been accompanied by a fall in exports to other countries from 33¾ million tons in 1932 to less than 25¾ million tons in 1936, and in total coal exports from 39 to 34½ million tons.

Norway, Sweden, Denmark, Finland and Argentina together took 11.3 per cent by volume and 13.4 per cent by value of United Kingdom cotton goods exports in 1936 against 8.7 per cent and 10.6 per cent respectively in 1932. Exports to this group have risen slightly in yardage and value at a time when the total yardage and value of the cotton trade's exports have been falling.

Taken as a whole, British export trade has made headway in some "trade agreement" markets, but not in others. Denmark, Latvia, Lithuania, Estonia and Argentina have increased the importance of their purchases from Great Britain proportionately as well as absolutely. But in Norway and Finland, British goods had, between 1932 and 1935 actually lost ground.

Table 1—Distribution of United Kingdom Overseas Trade

I—IMPORTS

(£000)

	1929	1930	1931	1932	1933	1934	1935	1936
(i) *From British Countries:*								
Total	358,842	304,030	247,416	248,137	249,137	271,285	284,558	332,580
Percentage of Total Imports	29.3	29.1	28.8	35.4	36.9	37.2	37.7	39.2
(ii) *From "Trade Agreement Countries":*								
Norway	14,149	11,967	8,630	8,283	6,961	8,359	8,213	8,953
Sweden	25,709	22,581	17,342	13,424	15,938	17,926	17,010	20,632
Denmark	56,178	54,118	46,696	40,570	35,428	32,885	32,038	33,225
Finland	14,945	12,634	11,630	11,733	12,767	15,215	14,915	18,151
Latvia	5,467	4,747	2,928	2,683	2,641	2,715	2,920	3,419
Lithuania	587	791	1,488	1,882	1,967	1,856	2,338	2,989
Estonia	2,497	1,992	1,908	1,260	1,217	1,996	1,825	1,935
Argentina	82,447	56,666	52,744	50,885	41,687	47,030	43,967	45,106
Soviet Union	26,487	34,235	32,285	19,645	17,491	17,327	21,764	18,934
Total	228,466	199,731	175,651	150,365	136,097	145,309	144,990	153,344
Percentage of Total Imports	18.7	19.1	20.4	21.4	20.1	19.8	19.2	18.1
(iii) *From Other Foreign Countries:*								
Total	633,457	540,214	438,186	303,168	289,782	314,820	326,493	363,012
Percentage of Total Imports	52.0	51.8	50.8	43.2	43.0	43.0	43.1	42.7
Total Imports	1,220,765	1,043,975	861,253	701,670	675,016	731,414	756,041	848,936

Table 1—Distribution of United Kingdom Overseas Trade—(*continued*)

II—EXPORTS

(£ 000)

	1929	1930	1931	1932	1933	1934	1935	1936
(i) *To British Countries:*								
Total	324,451	248,345	170,673	165,512	163,517	185,573	204,345	216,927
Percentage of Total Exports	44.6	43.5	43.7	45.4	44.5	46.9	47.9	49.3
(ii) *To "Trade Agreement Countries":*								
Norway	9,858	12,931	7,559	5,802	5,553	6,292	6,619	7,147
Sweden	10,548	10,068	7,744	6,885	7,175	9,083	9,723	10,388
Denmark	10,670	10,249	8,657	9,853	11,797	13,357	13,759	14,948
Finland	3,363	2,414	1,604	2,263	2,846	3,612	4,153	4,219
Latvia	1,496	1,152	591	591	1,001	1,166	1,121	1,245
Lithuania	380	368	301	396	659	1,070	1,548	1,648
Estonia	464	388	213	359	366	442	680	734
Argentine	29,074	25,234	14,785	10,660	13,073	14,655	15,257	15,271
Soviet Union	3,743	6,772	7,291	9,223	3,341	3,640	3,483	3,493
Total	69,596	69,516	48,745	46,032	45,811	53,317	56,343	59,093
Percentage of Total Exports	9.6	12.4	12.5	12.6	12.5	13.5	13.2	13.4
(iii) *To Other Foreign Countries:*								
Total	335,302	252,834	171,204	153,480	158,581	157,096	265,146	164,699
Percentage of Total Exports	45.8	44.1	43.8	42.0	43.0	39.6	38.9	37.3
Total Exports	729,349	570,755	390,622	365,024	367,909	395,986	425,834	440,719

TABLE 1—DISTRIBUTION OF UNITED KINGDOM OVERSEAS TRADE—(*continued*)

III—RE-EXPORTS

(£ 000)

	1929	1930	1931	1932	1933	1934	1935	1936
(i) *To British Countries:*								
TOTAL	23,062	20,480	16,063	11,531	10,443	11,077	10,962	...
Percentage of Total Re-exports	19.2	18.7	18.5	22.6	21.3	21.6	19.8	...
(ii) *To "Trade Agreement Countries":*								
Norway	469	342	301	340	261	254	387	252
Sweden	1,156	868	719	667	674	793	819	910
Denmark	829	742	557	499	477	731	777	642
Finland	530	430	170	242	256	387	464	362
Latvia	135	95	31	44	188	229	141	126
Lithuania	14	30	6	16	31	30	53	92
Estonia	236	124	50	61	92	193	221	210
Argentine	603	442	270	202	214	249	344	276
Soviet Union	2,799	2,519	1,912	1,397	957	3,905	6,244	9,466
TOTAL	6,771	5,592	4,016	3,468	3,150	6,771	9,450	12,336
Percentage of Total Re-exports	5.6	5.1	4.6	6.8	6.4	13.2	17.1	20.4
(iii) *To Other Foreign Countries:*								
TOTAL	90,450	83,630	66,756	36,022	35,888	33,395	34,891	...
Percentage of Total Re-exports	75.2	76.2	76.9	70.6	72.3	65.2	63.1	...
TOTAL RE-EXPORTS	120,283	109,702	86,835	51,021	49,081	51,243	55,303	60,416

Table 2—United Kingdom Exports of Coal
(000 tons)

	1929	1932	1934	1935	1936
Total Exports .	60,267	38,899	39,660	38,714	34,533
Exports to:					
Norway . . .	1,444	868	1,371	1,311	1,327
Sweden . . .	2,336	1,365	2,610	2,527	2,693
Denmark . . .	2,194	2,090	3,088	3,175	3,334
Finland . . .	462	473	831	744	1,063
Latvia . . .	56	236	402	457	450
Lithuania . . .	61	72	185	196	...
Estonia . . .	87	33	4	51	...
Total "Quota Countries"	6,640	5,137	8,511	8,461	8,867
Total Other Countries .	53,627	33,762	31,149	30,253	25,666
"Quota Countries" as Percentage of Total . .	11.0	13.2	21.4	21.8	25.7

Table 3—United Kingdom Exports of Cotton Textiles

	1929	1932	1934	1935	1936
			(000 square yards)		
Total Exports . .	3,671,857	2,197,471	1,993,520	1,948,431	1,916,752
Exports to:					
Norway . . .	15,856	17,792	18,379	18,513	20,118
Sweden . . .	16,585	19,877	25,348	20,111	22,066
Denmark . . .	26,777	34,791	50,012	46,450	52,557
Finland . . .	4,872	2,613	7,044	6,793	7,186
Argentina . . .	144,152	115,982	161,341	134,203	115,830
Total of Above .	208,242	191,055	262,124	226,070	217,757
Percentage of Total Exports	5.7	8.7	13.1	11.6	11.3
			(£ 000)		
Total Exports . .	99,264	43,615	39,820	39,532	40,328
Exports to:					
Norway . . .	598	499	536	561	625
Sweden . . .	636	564	658	574	651
Denmark . . .	942	876	1,206	1,151	1,215
Finland . . .	214	89	203	188	205
Argentina . . .	4,930	2,602	3,581	3,012	2,699
Total of Above . .	7,320	4,630	6,184	5,486	5,395
Percentage of Total Exports	7.4	10.6	15.5	13.9	13.4

Table 4—Percentage Share of British Goods in Certain Foreign Markets

Q=Quantity V=Value Percentage of Total Imports

		1929	1932	1934	1935	1936
Norway:						
Coal	Q	61.5	43.8	67.8	63.6	...
Cotton Textiles	Q	32.8	39.1	43.4	43.7	...
All Imports	V	20.6	21.5	22.8	17.9	...
Sweden:						
Coal	Q	47.2	30.5	54.3	47.5	...
Cotton Textiles	Q	43.3	72.1	61.0	50.0	...
All Imports	V	17.3	16.9	19.6	19.3	...
Denmark:						
Coal	Q	54.2	58.3	81.3	82.3	80.0
Iron and Steel	V	17.0	25.8	34.2	29.9	25.0
Cotton Textiles	Q	37.2	67.0	85.5	88.3	...
All Imports	V	14.1	22.3	30.0	36.0	36.5
Finland:						
Coal	Q	48.8	55.6	78.6	75.8	...
Coke	Q	29.8	34.7	28.6	72.0	...
Cotton Textiles	Q	39.9	68.0	65.7	63.7	...
All Imports	V	9.2	26.0	22.8	24.2	21.9
Latvia:						
Coal	Q	10.2	64.5	87.3	80.3	70.6
Herrings	Q	95.0	97.3	100.0	100.0	100.0
All Imports	V	8.4	13.9	22.6	20.4	21.5
Lithuania:						
Coal	Q	15.0	34.6	82.5	88.5	86.5
Coke	Q	18.7	18.2	63.2	95.4	53.0
Cotton Textiles	Q	11.5	15.9	38.3	77.3	67.0
Herrings	Q	82.5	98.5	99.2	99.6	99.1
All Imports	V	8.5	10.8	25.3	37.3	36.5
Estonia:						
Coal	Q	83.3	62.6	65.0	92.7	...
Coke	Q	47.1	—	24.9	38.6	...
Cotton Textiles	Q	24.8	9.2	7.9	30.3	...
All Imports	V	10.0	13.8	16.4	19.0	17.9
Argentina:						
Coal	V	93.3	89.2	80.0	81.0	...
Cotton Textiles	Q	34.4	47.6	47.2	36.7	...
Woollen Textiles	Q	51.0	56.0	70.0	80.0	...
All Imports	V	17.1	21.6	26.3	32.2	32.2*

* First six months.

TABLE 5—UNITED KINGDOM EXPORTS AND RE-EXPORTS TO SOVIET RUSSIA

(£ 000)

	1929	1931	1933	1934	1935	1936
(a) BRITISH EXPORTS						
Machinery	1,737	4,418	1,859	1,012	902	689
Iron and Steel	403	807	433	1,374	951	598
Non-ferrous Metals	82	221	391	705	474	754
Wool	589	287	126	192	222	357
Other Textile Raw Materials	—	—	—	—	—	—
Rubber	—	—	—	—	—	—
Tea	—	—	—	—	—	—
Herrings	22	20	4	94	111	65
Chemicals*	102	190	34	47	72	77
(b) EXPORTS OF IMPORTED MERCHANDISE						
Machinery	—	—	—	—	—	—
Iron and Steel	—	—	—	—	—	—
Non-ferrous Metals	1,353	490	181	827	2,823	4,633
Wool	84	17	—	2	647	—
Other Textile Raw Materials	82	49	10	31	92	—
Rubber	362	767	457	2,483	1,716	2,811
Tea	726	175	194	258	463	568
Herrings	—	—	—	—	—	—
Chemicals*	1	242	28	16	5	4

* Including dyestuffs.

TABLE 6—UNITED KINGDOM IMPORTS OF EGGS, BACON AND DAIRY PRODUCE

	Quantity					Value, £ 000				
	1929	1932	1934	1935	1936	1929	1932	1934	1935	1936
Eggs (thousand great hundreds)										
TOTAL	24,964	19,995	18,734	19,767	24,635	17,856	9,064	7,051	7,768	9,902
From Denmark	5,573	6,392	6,383	6,564	7,987	4,698	2,970	2,436	2,689	3,513
Bacon (thousand tons):										
TOTAL	419	570	380	346	328	43,742	30,189	30,047	27,394	27,267
From Denmark	249	384	214	191	169	27,230	20,941	17,700	15,965	14,955
" Finland	—	1.9	1.2	1.1	—	—	95	92	85	...
" Latvia	3.3	0.9	2.2	1.6	1.8	276	46	164	125	145
" Lithuania	0.2	2.6	1.3	0.8	1.0	23	1,181	926	623	757
" Estonia	1.3	6.1	2.5	2.3	2.2	126	208	198	175	173
Butter (thousand cwts.):										
TOTAL	6,397	8,364	9,695	9,608	9,752	54,706	41,055	33,272	39,328	44,424
From Sweden	248	176	303	184	149	2,113	892	928	751	688
" Denmark	2,200	2,580	2,480	2,180	2,180	19,737	13,432	9,557	9,966	10,771
" Finland	234	217	151	116	160	1,952	1,080	496	486	713
" Latvia	80	112	156	182	196	650	450	421	697	827
" Lithuania	13	68	141	181	211	103	263	403	634	884
" Estonia	110	83	123	119	116	893	338	350	425	493
Cream (tons):										
TOTAL	6,930	6,841	4,770	3,734	3,832	702	531	248	229	255
From Denmark	1,974	3,008	2,238	2,011	1,656	186	197	135	118	113

TABLE 7—UNITED KINGDOM IMPORTS OF TIMBER AND PAPER MAKING MATERIALS
(£ 000)

	1929	1932	1934	1935	1936
Timber:					
TOTAL IMPORTS	45,840	25,610	39,497	35,516	43,568
From Norway	1,942	611	617	521	581
,, Sweden	6,542	3,675	5,764	4,287	6,071
,, Finland	7,566	4,234	7,781	7,094	8,634
,, Russia	8,996	6,194	6,567	6,663	6,723
,, Estonia	701	115	794	478	517
,, Latvia	1,424	1,184	1,533	1,087	979
,, Lithuania	18	173	197	137	...
Timber Manufactures (including Plywood):					
TOTAL IMPORTS	9,684	5,468	5,559	6,173	7,463
From Norway	369	292	69	80	90
,, Sweden	1,444	664	511	485	537
,, Finland	1,377	997	1,037	1,326	1,544
,, Russia	395	647	728	1,001	1,004
,, Estonia	250	161	74	85	100
,, Latvia	533	282	244	280	326
,, Lithuania	52	34	85	112	...
Paper-Making Materials:					
TOTAL IMPORTS	13,150	9,816	11,110	10,757	11,890
From Norway	2,689	1,839	1,820	1,363	1,429
,, Sweden	4,536	2,013	3,130	2,944	3,110
,, Finland	2,150	3,431	3,676	3,792	4,711
,, Estonia	168	268	147	260	199
,, Lithuania	247	127	116	192	167
,, Russia	104	70	47	55	...
,, Latvia	42	9	23	—	...

TABLE 8—UNITED KINGDOM IMPORTS OF BEEF, MUTTON AND LAMB

(000 tons)

	1929	1932	1934	1935	1936
Chilled Beef (excl. Veal):					
Total Imports . .	465	440	413	424	439
From Argentina . .	409	390	347	347	355
Frozen Beef (excl. Veal):					
Total Imports . .	118	128	170	149	144
From Argentina . .	45	33	27	26	29
Mutton and Lamb:					
Total Imports . .	282	347	324	335	315
. From Argentina . .	77	69	46	45	45

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